Technical Study 9

THE MEDIUM-TERM EMPLOYMENT OUTLOOK: FINANCE, INSURANCE AND REAL ESTATE SECTOR

A.E. Daley

July 1981

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A.E. Daley

The finance sector covers three main industry groupings: financial institutions, the insurance industry and the real estate industry. Financial institutions include both savings and credit institutions and those primarily involved with investment. The insurance industry includes insurance and re-insurance companies, together with agencies independent of insurance companies. The real estate industry is made up of companies involved in real estate brokerage activities.

The sector employs approximately 500,000 people, with about 237,000 in financial institutions, 150,000 in the insurance industry and about 90,000 in the real estate industry. Approximately 60 per cent of the labour force are women. About 90 per cent of all workers are engaged in clerical activities and of those approximately 80 per cent are female. The general hiring level of education in the past has been Grade 12-13, and all industries provide on-the-job, job-specific and company-specific training. For most employees this means that their skills have minimal transferability to other industries and even to other companies. Nearly all employment is located in metropolitan areas and 70 per cent of total employment is concentrated in Ontario and Quebec.

Over the past 20 years, the sector has been characterized by rapid growth, which until recently kept pace with the growth in assets and sales. Employment more than doubled from 1961 to 1981 but most growth was concentrated

between 1961 and 1971. Slower growth in the last decade was related, in part, to increased automation which removed many lower level clerical jobs and partly to uncertain economic conditions which slowed growth in sales and led to major cyclical shifts in employment.

The growing use of automation has also changed the skill mix within individual organizations. In the 1960s clerical employment was dominant, but the rapid growth of electronic data processing removed much of the purely clerical activities from many jobs. The change in job content has brought about an increased demand for higher skills and more flexibility on the part of new entrants. At higher levels employees are now expected to have more professional training, and all industries encourage employees to gain further professional and general education credits.

Clerical work is the area where technological change is perceived as having the greatest potential for major organizational and employment change which may be sufficiently rapid to bring about major and widespread dislocation. There is also concern that as the number of clerical jobs are reduced in favour of more highly skilled technical positions the opportunities for upward mobility for women with lower skills and education will be severely limited.

To develop a broad understanding of the causes and potential for change within the individual industries a broad cross section of 28 firms selected on the basis of their size and their current position in the flow of technological change were studied in considerable depth.

A series of hypotheses was developed to identify three main issues: the environment of the firm and its response; the available level of technology and the expected rate at which it would be adopted; and the firm's response to change in terms of occupational groups, skill mix, geographic distribution and hiring practices. A questionnaire was then prepared that identified key areas for labour markets in the future. An in-depth interview was supplemented by a detailed data questionnaire along with additional information from government and industry association officials.

All the firms surveyed expected to see growth in assets and sales but none expected substantial growth in employment except in certain specialized groups. All firms exhibit high turnover rates in clerical staff and therefore expected to manage any major changes in their operations with minimal labour force dislocation. All major firms interviewed had substantial training programs and expected to be able to retrain personnel for the new needs of the company. Interviewees felt that the basic institutional structure of internal promotion and training and the emphasis on flexible educational backgrounds may increase the mobility of female workers into middle management. It was noted that while labour force growth is expected to be small, demographic changes are likely to reduce the number of secondary school graduates; consequently, reduced labour force demand will not have the same impact that it would have had in the 1970s.

It would appear that technological change will be much slower in the future and that the primary change will be in the type of skills demanded. New entrants will require much higher education skills, with more flexibility to adjust to changing job demands. The sector as a whole will no longer absorb the large numbers of lower skilled, secondary school graduates that it has done in the past.

These changes have major implications for that segment of the labour market made up of high school graduates. It is of importance that students at this level are informed of the future directions and employer needs of the sector before they undertake training that may be inappropriate for future jobs in the sector. The regular publication of information on the future of this labour market should be undertaken for dissemination through the secondary educational counselling system. Dissemination of this information would also assist in the efficient allocation of education budgets so that courses offering an appropriate skill base can be supported in advance of new demands.

PERSPECTIVES D'EMPLOI À MOYEN TERME: LA FINANCE, L'ASSURANCE ET L'IMMOBILIER

A.E. Daley

Le secteur des finances regroupe trois principales industries: les institutions financières, l'assurance et l'immobilier. Les institutions financières comprennent les maisons d'épargne et de crédit et les établissements qui s'occupent surtout de placements. Le secteur de l'assurance comprend des sociétés d'assurance et de réassurance, de même que des organismes indépendants. Le secteur de l'immobilier regroupe les sociétés qui s'occupent d'activités de courtage en valeur immobilière.

Le secteur des finances emploie environ 500 000 personnes, dont environ 237 000 dans les institutions financières, 150 000 dans l'industrie de l'assurance et quelque 90 000 dans l'immobilier. A peu près 60 % des travailleurs sont des femmes. Quelque 90 % de tous les travailleurs font du travail de bureau et, de ce nombre, environ 80% sont des femmes. Par le passé, les débutants avaient en général une 12^{e} ou une 13^{e} année. Tous les sous-secteurs offrent de la formation en cours d'emploi, de la formation axée sur l'emploi et de la formation axée sur l'entreprise. Cela signifie pour la plupart des employés que leurs compétences ne peuvent guère être utilisées dans d'autres secteurs et même dans d'autres entreprises. Presque tous les emplois sont situés dans des régions métropolitaines, et 70 % de l'emploi total est concentré en Ontario et au Québec.

Au cours des vingt dernières années, le secteur a été caractérisé par une croissance rapide qui, jusqu'à récemment, s'est poursuivie au même rythme que celle des actifs et des ventes. Le nombre d'emplois a plus que doublé

de 1961 à 1981, mais la croissance s'est surtout manifestée entre 1961 et 1971. Le ralentissement enregistré au cours de la dernière décennie était imputable en partie à l'automatisation accrue qui a fait disparaître bon nombre d'emplois administratifs de faible niveau et en partie à la conjoncture économique incertaine qui a freiné la croissance des ventes et entraîné d'importants glissements cycliques de l'emploi.

Le recours accru à l'automatisation a également transformé l'ensemble des compétences dont chaque entreprise a besoin. Dans les années 1960, c'est le travail de bureau qui primait, mais l'évolution rapide du traitement électronique des données a fait disparaître une bonne partie des activités purement administratives de bon nombre d'emplois. Ces transformations ont attisé la demande de travailleurs plus spécialisés et exigé plus de souplesse de la part des travailleurs débutants. Aux échelons supérieurs, les employés doivent maintenant posséder une formation professionnelle plus poussée, et toutes les industries encouragent leurs employés à se perfectionner sur les plans scolaire et professionnel.

Le travail de bureau représente le domaine où il est le plus probable que des changements technologiques entraînent d'importantes transformations sur les plans de l'organisation et de l'emploi. Celles-ci pourraient s'opérer assez rapidement pour provoquer une désorganisation importante et généralisée du marché du travail. On s'inquiète aussi de ce que la réduction du nombre d'emplois administratifs au profit de postes techniques ou très spécialisés restreigne sérieusement les possibilités d'avancement des femmes ayant un niveau de compétence et de scolarité moins élevé.

Pour arriver à comprendre de façon générale les causes et les possibilités de changement au sein de chaque sous-secteur, un important échantillon de 28 entreprises, choisies en fonction de leur taille et de leur situation actuelle au chapitre des changements technologiques, ont été étudiées de près.

Une série d'hypothèses a été établie en vue de circonscrir trois aspects importants: le milieu de l'entreprise et sa façon de réagir; le niveau de technologie disponible et le rythme prévu d'application de cette technologie; ainsi que la façon dont l'entreprise fait face aux changements sur les plans des groupes professionnels, des compétences requises, de la répartition géographique et des pratiques d'embauchage. Nous avons ensuite rédigé un questionnaire qui portait sur des facteurs clés des marchés du travail dans l'avenir. Un interview approfondi a été étoffé d'un questionnaire détaillé et de renseignements supplémentaires recueillis auprès de représentants du gouvernement et d'associations industrielles.

Toutes les entreprises visées prévoyaient une croissance des actifs et des ventes, mais aucune ne s'attendait à une forte croissance de l'emploi, sauf pour certains groupes spécialisés. Toutes les entreprises affichent un taux élevé de roulement du personnel administratif et prévoyaient donc pouvoir faire face à tout changement important dans leur activité sans trop de boulversements. Toutes les grandes entreprises interrogées avaient des programmes de formation importants et s'attendaient à pouvoir recycler leurs employés en fonction des nouveaux besoins de l'entreprise. Les personnes interrogées estimaient que la structure institutionnelle de base de l'avancement et de la formation internes et la reconnaissance d'antécédents scolaires divers

pouvaient contribuer à permettre davantage aux femmes d'accéder à des postes de gestion intermédiaire. On a fait remarquer que même si l'on s'attend à une croissance lente de la population active, les changements démographiques contribueront sans doute à réduire le nombre des finissants du niveau secondaire et que, par conséquent, la demande réduite de main-d'oeuvre n'aura pas les même répercussions qu'elle aurait eues au cours des années 1970.

Il semble que les transformations technologiques se feront beaucoup plus lentement à l'avenir et que les principaux changements s'opéreront à l'égard du type de compétences recherchées. Les nouveaux actifs devront être beaucoup plus instruits et plus souples pour s'adapter aux nouvelles exigences des emplois. L'ensemble du secteur n'absorbera plus, comme il l'a fait par le passé, un grand nombre de finissants du secondaire peu spécialisés.

Ces changements auront des répercussions profondes pour les finissants du secondaire qui arrivent sur le marché du travail. Il est important que les étudiants à ce niveau soient informés des perspectives d'avenir et des besoins des employeurs de ce secteur d'activité. Il faudrait entreprendre de publier régulièrement des renseignements sur l'avenir de ce marché du travail par l'intermédiaire des services d'orientation offerts aux étudiants du secondaire. La diffusion de ces renseignements permettrait également de répartir efficacement les crédits affectés à l'éducation, de façon que les cours qui permettent aux étudiants d'acquérir les compétences appropriées puissent être subventionnés avant même que les nouvelles demandes se manifestent.

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The researcher would like to acknowledge the assistance which was received from senior personnel in both industry and government through their frankness in interviews and through their provision industry and company data to supplement existing data bases.

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1. INTRODUCTION

1. Introduction

The research work done in the Finance Sector has attempted to isolate the major issues which the industries have faced in the past ten years and the issues which are likely to arise in the mid-term future of the 1980's. The industries' past responses to change are discussed and used as a prospective from which to analyze their options in the face of future environmental change. Although the major emphasis is placed on the economic environment in which the companies function, care has been taken to discuss both social and technological changes that could have major effects on particular aspects of each industry.

Three major themes run through the analysis. The effects of inflation and high interest rates, and the need which that has produced for the rationalization of portions of these industries. Increased consumer awareness of the quality and quantity of services which can be expected or demanded. The overall impact of indepth rather than superficial technological change which may redefine the product areas of the individual industries or redefine the whole sector.

The sector is one of the most regulated in the Canadian economy. At all levels it is subject to legislative control of its product areas. All industries are subject to various licencing requirements which control the number and type of entrants into the sector whether at the 'wholesale' level or at the 'retail' sales level. All industries within the sector are concerned with their vulnerability to government intervention in their product areas, or to changes in other areas of economic legislation which define the markets for their products.

While the Finance Sector as a whole has provided, in the past, large numbers of jobs for lower skilled school leavers there has been concern expressed that in the future not only will it scale down its acceptance of these workers but also that the present clerical workers will be vulnerable to lay-offs as electronic data processing eliminates many repetitive clerical jobs. The analysis of the sector examine these aspects of technological change in an attempt to define those changes which are in the control of the companies and therefore the effects of which could be mitigated by more effective man power planning, and those changes which are essentially outside the control of companies or industries and therefore beyond their planning scope.

The study also examines some of the areas of high skilled personnel especially those in data processing or areas that are crucial to industry growth. The analysis focuses on areas of long term or chronic shortages of personnel and the effects which that may have on the ability of the industry to respond to changes in its product or operating environment.

The research examines the extent to which future regional economic patterns will influence labour force distribution in the next decade. Where patterns of long term shortage of personnel have been found these are highlighted and the ability of the industry to mitigate these shortages are discussed.

The analysis at all times attempts to put the Sector into an overall economic context so that problems or opportunities can be viewed in the perspective of the total Canadian economy. The recommendations are made in light of this perspective and are provided in the hope that continuing dialogue between government and industry can provide solutions that will benefit all participants in this important Sector of the Canadian economy.

2. FINANCE SECTOR - BASIC DATA

2. Finance Sector - Basic Data

The Finance Sector (SIC 700-737)[1] is comprised of three industry groupings: Financial Institutions, Insurance Carriers, and Insurance Agencies and Real Estate Brokerages. The area covered by financial institutions includes chartered banks, trust companies and mortgage loan companies, credit unions and caisses populaires, acceptance companies, investment dealers and holding companies. The financial institutions are normally aggregated into two groups; the savings and credit institutions and those primarily involoved in investments. It is on this former group that this report concentrates. Insurance carriers include those companies dealing in re-insurance but does not include agencies independent of the insurance carriers. These are included in the Insurance Agencies and Real Estate Agencies category along with real estate brokerages.

This breakdown is somewhat confusing as it splinters the insurance industry into two separate entities without regard for their close association. The blending of the insurance agents and the real estate agents is particularly problematical as often the employment effects of general economic trends are very different in the two industries. For the purposes of much of this report the two groups have been dealt with separately with the insurance agents being included in any discussions of the insurance industry as a whole. Where, however, the only data available are those provided by Statistics Canada this division is impossible to preserve and blended data are used.

The following table shows a breakdown of the labour force in the finance sector for selected groups using the Statistics Canada standard industrial code divisions. It should be noted however that the data seriously underestimates the number of people employed in the Sector. The underestimation is caused by the selection firms employing twenty people or more for the data base of the monthly

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[1] SIC - Standard Industrial Code - Used by Statistics Canada to designate particular industry sectors and groups within those sectors.

Employment Earnings and Hours of Work (Statistics Canada 72-002) from which these Statistics are drawn. This selection eliminates in excess of 70 percent of all firms in the Insurance Agencies and Real Estate Brokerages segment and a large number of firms in the investment type financial institutions. Based on industry produced statistics, total employment in the whole sector in 1980 was approximately 500,000 people compared with 379,300 shown in the Statistics Canada data.

TABLE 2.1

Employment in the Finance Sector 1961 to 1990

	1961*	1971*	1975*	1980*	1985**	1990**
Total Sector[a] Employment	172,919	256,493	303,300	379,300	415,000	476,800
Savings & Credit	91,494	132,051	170,621	217,300	239,000	289,000
Insurance Carriers	60,250	79,447	72,300	88,100	89,000	90,800
Insurance & Real Estate	13,258	27,586	42,300	54,000	67,000	75,000

Source: *Statistics Canada (72-002) Employment Earnings and Hours.
Source: **Derived from questionnaires administered to interviewees.
[a] Total Sector Employment includes employees in the investment type financial institutions not included in Savings and Credit.

The growth of the labour force in the Sector has been very high over the last twenty years, 119% between 1961 and 1980. Much of this growth took place between 1961 and 1971 when employment increased by 48%. Since then growth has slowed substantially; between 1971 and 1975 it was 18% and between 1975 and 1980 it was 25%. Most of the growth in the past 10 years has been in the savings and credit area which expanded its labour force by 65% between 1971 and 1980. Insurance carriers have exhibited cyclical growth patterns. Labour force growth was high and steady from 1961 to 1971, 32% over that period, and then suffered a rapid decline between 1971 and 1975 which brought labour force totals below their 1971 levels by 1975(-9%).

Labour force numbers have since recovered demonstrating a steady growth of 22% between 1975 and 1980. Agency and brokerage employment has demonstrated dramatic growth, 108% between 1961 and 1971, 53% between 1971 and 1974 and a much slower increase between 1975 and 1980 of 28%, but it should be noted that the data only includes firms above 20 employees and so excludes the bulk of firms in both industries so that this growth may be seriously overestimated as there has been much firm rationalization in both these industry groups.

The projected growth figures exhibit some of the same instabilities with growth in the savings and credit areas being much stronger than elsewhere and employment by the insurance carriers stagnating or even reducing. Employment in the insurance and real estate agencies is subject to substantial pressures for decline. As the category deals with two activities which have no interdependency in their employment, estimates have been made separately. It is anticipated that there will be little growth or even a decline in the number of insurance agents while it is expected that the number of real-estate agents may grow. All the projected figures are subject to a great degree of uncertainty especially where government intervention, changing environmental conditions or substantial redefinition of the industry may take place. These figures are useful however if only to provide some indication of the dimensions of the labour force demand changes which are likely to take place.

All these industries, traditionally, have been centered in Ontario and Quebec, with most head offices for banks and insurance companies being located in Toronto or Montreal. In 1971, 70% of total sector employment was located in the two provinces, however, this is now slowly changing with changing regional economic patterns. It is not anticipated that rapid or extensive changes will occur in the next ten years for any of these industries. A slight movement of 4% of total employment to the western provinces is expected but this will be primarily at the local sales and will only require the hiring of local personnel. It is very unlikely that there will be major removals of head offices currently located in central Canada to the west.

TABLE 2.2

Percentage Regional Employment of Total Employment in the Financial Sector by Selected years[1]

	1961	1971	1980
Maritimes	5	5	6
Quebec	27	25	23
Ontario	43	44	43
Prairies	15	15	16
BC	10	12	13

Source: Derived from Statistics Canada.
13-571 Subprovincial changes in the labour force by industry 1961-1971.
72-002 Employment Earnings and Hours.
72-603 Finance, Insurance and Real Estate - Employment, Earnings and Hours of Work, 1973.

The finance sector has always been an employer of a large number of female workers.

TABLE 2.3
Female Employment as a % of Total Employment in the Finance Sector 1961 to 1980

	1961	1971	1975	1980
Total Employment	49.9	53.3	57.9	60.1
Savings and Credit	52.5	60.3	65.5	69.8
Insurance Carriers	46.5	40.6	45.3	52.0
Insurance and Real Estate	N/A[2]	43.5	50.0	47.8

Source: Derived from Stats. Canada 72-002 and 72-603

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[1] The governments of B.C., Saskatchewan, Ontario and most recently Quebec have all taken over large portions of the personal insurance coverage which has distorted the employment pattern in these regions.
[2] At this time 'real estate' was not included in this sector.

In the same period total female employment in the general labour force has been increasing, most recently at a more rapid rate.

Figure 2.1

Female Employment in the Finance Sector and in the General Labour Force 1961-1980

Source: Derived from Statistics Canada 72-603 and 72-002

In a 1973 survey carried out by Statistics Canada[1] it was shown that most female labour was employed in the clerical area of all institutions, and most part-time labour was female for all industries in the sector.

[1] Statistics Canada 72-603, Finance, Insurance and Real Estate Employment, Earnings and Hours of Work, 1973.

TABLE 2.4

Finance Sector % of Female Clerical and Part-Time Employees 1973

	Total Clerical Workers	% Female	Total Part-time Clerical Workers	% Female
Total Sector	220,259	81%	14,949	87%
Savings and Credit	133,889	81%	9,678	88%
Insurance Carriers	37,976	79%	616	84%
Insurance & Real Estate	30,724	81%	4,656	86%

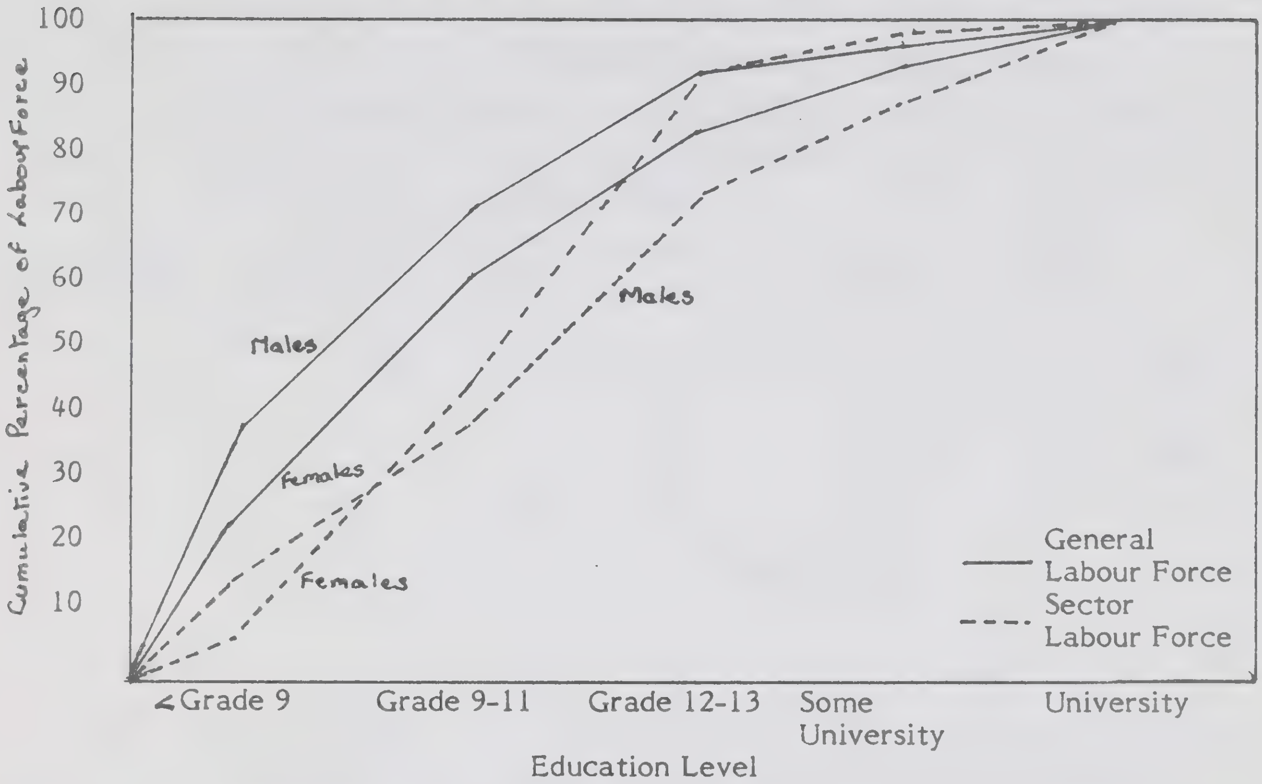
Source: Statistics Canada. 72-603 Finance, Insurance and Real Estate - Employment Earnings & Hours of Work, 1973.

Female labour in 1973 was under represented in sales and managerial groups. Data from interviews shows that although this is still true there are considerably more women involved in the more managerial and technical levels of all companies.

The entrance level for the financial sector has generally been at the lower clerical levels. Most entrants come directly from high school, or community college, except where they enter the more specialized and technical levels where a university degree is required. In general the labour force in the Finance sector is better educated than the general labour force.

Figure 2.2

Comparison of General Labour Force Education Levels with those of the Finance Sector (1971)



Source: Derived from Statistics Canada 94-749. Industries by sex, showing age, marital status, levels of schooling, and class of worker for Canada (1971).

Very few employees have less than grade 9, while considerably more than in the general labour force have grade 12-13, 75% more in the case of men and 40% more in the case of women. More men than women employed in the sector have some university or university degrees, and in the case of women there are substantially more employees in the general labour force in these two categories than there are in this sector.

The sector's high level of education is likely to continue as more emphasis is placed on job mobility within the companies, and as jobs become more complex. The Insurance Agencies and Real Estate Agencies which are sales related fields show a much higher proportion of men with little formal education. As would be

expected the Financial Institutions and the Insurance Companies show a larger proportion of university educated employees, and many of these would be in the managerial, technical and specialist jobs.

TABLE 2.5

Education Levels in the Finance Sector
% of Total Sector Labour Force
(Canada 1971)

	Less than Grade 9	Grade 9-11	Grade 12-13	Some University	University
Finance Sector Total	8.4	32.0	42.0	11.5	6.0
Male	11.7	26.7	35.0	16.1	10.5
Female	5.2	36.9	48.6	7.3	2.1

Source: Derived from Stats. Canada 94-749.

Within the sector very few women have less than grade 11 education but even fewer are university educated. While there are a substantial number of men with less than grade 9 education, this is far outweighed by the number of men with university education. It should be emphasized that these are 1971 data and that substantial changes have taken place in higher education for women in the past ten years. In discussion, many companies indicated that it was becoming easier to hire women of the education and calibre required for management training or technical/specialist jobs.

The skills required in this sector are specific to the industries within it for the most part; however there would appear to be an increasingly heavy flow of employees with highly developed specialized skills into the senior technical levels of all three industries. This is especially true of expanding fields such as oil and gas where both the banks and insurance companies require engineers with long experience to assist them in understanding the new risks involved. At the clerical level some skills are very mobile, but many are specific to the industry or to the particular company.

All major companies within the sector have their own training programmes and rely very little on outside sources except industry accredited programs. Employees are generally encouraged to up-grade their skills on a continuous basis. All companies interviewed prefered to promote internally and generally have found this a satisfactory method of filling middle and senior management vacancies. As discussed above this pattern is changing slightly and will be more fully discussed in the sector analysis. The major exception to this method of hiring and training is in the Electronic Data Processing (EDP) area where most companies hire on the general market[1]. This exception is created by the general shortage of employees in this area which has created an extremely mobile labour pool. Major employers often find that they are in the role of trainers for their industry.

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[1] It is worthwhile at this point to make a general comment on the direction of the computer industry. At present there is a national shortage of systems analysts in particular, and all EDP personnel in general. Computers however are rapidly becoming more sophisticated to the point that most late generation ones are self-diagnosing and are monitored and controlled by mini-computers. The price of main-frame and periphery units has dropped so rapidly in the past ten years that it is almost conceivable that a point will be reached where the software cost will exceed the cost of the hardware. The computer industry itself faces a restricted and highly competitive labour market. Its response to the current bottleneck is to move rapidly towards more sophistocated packages, with customized modifications being performed by computer company staff, rather than client in-house systems designers. Essentially this will mean that the everyday user will be capable of implementing a standard array of modifications without having to participate in the actual creation of changes or 'fixes' to the original programs. Changes in skill requirements have already taken place in three areas. Self-diagnosing computers and peripheries are slowly removing the need for large numbers of expensive engineers, and reducing that job to the level of technician. Costly and slow communications use has been improved by the use of computers to interface between terminal and line, and mini-computers on the lines themselves to speed line use verification. In a few cases major portions of the software operating program creation have been reduced to a series of simple interactive packages which can be handled by programmers with community college training.

In summary it would appear that employment within the sector will increase by approximately 25% between 1980 and 1990. This growth will however be concentrated within the financial institutions and most particularly within the savings and credit institutions where growth is expected to be about 33% for the period. Growth of employment in the insurance industry is likely to be negligible and may in fact decline as will employment in the insurance agencies. Employment in the real-estate industry is highly cyclical and is likely to remain so during the eighties. It is not expected that there will be any rapid decentralization of these industries from central Canada although steady growth can be expected in the Prairies where the economy is more buoyant. Education and skill requirements are likely to rise within all these industries and there will be an increased emphasis on continued education to improve job flexibility and mobility.

Technological change will cause a slowing in the number of job openings which the sector could be expected to provide however all interviewees expressed the opinion that on-going re-training and the normally high turn-over rates within the clerical group, which is the group most likely to be effected, would minimize the impact of the change on current employees and that major dislocation of employment is very unlikely. Major dislocation is much more likely to arise from external economic factors which will be discussed in the next chapter in the detailed industry analysis.

3. INDUSTRIAL ANALYSIS

3. Industrial Analysis

The following sections analyze the economic, institutional and technological conditions which the three industry sectors, financial institutions, the insurance industry and the real estate industry, have faced in the past ten years and the conditions which are anticipated for the 1980's.

Methodology

The sector is divided into three main component areas of financial institutions, the insurance industry and the real estate industry. For the following analysis these three components were then further divided into their major product groups. In the case of the financial institutions it was decided to concentrate on the savings and credit institutions because of their overwhelming importance in the labour force of the financial institutions. The insurance industry is divided into two groups, the carriers and the agencies, the carriers were then further divided into two groups, those companies selling life insurance and those selling 'other than life' or 'general' insurance. These divisions were necessary because of the completely different products involved, the different structures of the industries and the differing response of the companies involved to changes in the total economic environment. The real estate industry was divided into two groups, companies selling primarily commercial real estate and those whose business is primarily residential in nature.

In all 28 companies were selected to provide a broad cross-section of the various industries. Selection was based on size, both of assets and employees, geographical distribution, and perceived importance within the industry for innovation and adoption of new technology. Eleven (11) firms among the savings and credit institutions were interviewed, seven (7) chartered banks and four (4) trust and mortgage loan companies, the seven (7) banks included all five of the largest national banks. Eight (8) insurance companies were interviewed, four (4) life companies and four (4) general companies, together with four (4) independent insurance agencies. Five (5) real estate firms, of which two (2) were primarily involved in commercial real estate and three (3) were in residential markets, were interviewed.

All interviews were conducted with senior management personnel, primarily on the vice-president level, and frequently with several managers from different departments covering a variety of the firm's operations. In addition interviews were conducted with senior officials in industry associations and government departments concerned with the operations of these industries.

Three main issues of concern to the Commission were early identified for the sector as a whole: the effect that rapid changes in technology might have on the labour force especially those in clerical positions; the labour force effect of unstable economic conditions as all industries are involved in interest sensitive markets; and the labour force effect of the changing economic base and redistribution of economic power and employment.

In order to reduce these issues to effective interview questions and to particularise them for each industry a series of hypotheses were developed for each industry or industry segment. The hypotheses covered four main areas: the historical and future environment external to the industry; the historical and future industry environment external to the firm; the internal responses of the firm to its environment; and the effect that the response is likely to have on the labour force within the firm. To test these hypotheses a series of questions were developed that allowed the respondent to focus on areas where particular problems or opportunities have occurred in the past or are likely to occur in the future both for the industry and the firm. Special emphasis was placed on incoming technological change, and the effect that that may have on both the size of the future labour force and its skill mix, and on changing economic and demographic patterns which might lead to changing labour force distribution patterns.

Each respondent was asked to discuss each question in considerable depth, and for the savings and credit institutions and the insurance carriers, interviewees were asked to complete an additional extensive data questionnaire covering employment in their firms. The use of this modified Delphi method allowed certain areas where there was wide divergence of opinion to be highlighted and clarification to be sought from industry association officials or senior officials in government.

The overall sythesis was developed by accepting or rejecting the original hypotheses and identifying the underlying changes which were of importance in the primary issues of technological change, instability and redistribution of economic

power. The labour force implications for the 1980's were then drawn out of this synthesis. Special attention was paid to the implications for total employment, female employment and skill mix requirements.

3.1 Financial Institutions

Methodology

The primary issue in the financial institutions sector as far as the Commission is concerned was whether there was likely to be adoption of technological change at a rate which would lead to substantial reductions in the clerical work force. More minor issues were the overall effects on the sector of the new Bank Act and the effects of increased competition in a period of rising costs. Four hypotheses were developed around these issues. It was hypothesised that:

a) the dimensions of the savings and credit industry are undergoing substantial change and redefinition.

b) the major threats to employment are:
   - escalating internal costs,
   - increasing international financial instability, and
   - increased competition in the industry.

c) the responses of the institutions are likely to be to:
   - curtail costs by increasing the level of direct consumer access to central computers to reduce the number of branches,
   - rapidly introduce electronic funds transfer to reduce costly cheque handling,
   - eliminate a large number of low skilled clerical positions with resultant lay-offs,
   - increase the sophistication of analysis and planning departments,
   - increase the number of computer-based services offered to all levels of customers.

d) the result of the changes would be to substantially reduce the hiring of low level clerical personnel and to substantially increase the number of personnel with sophisticated technical skills.

These hypotheses then formed the basis of the questionnaire administered to senior executives in the savings and credit institutions. Interviews were conducted with executives involved primarily in the personnel planning functions of the

institutions but all were at a sufficiently senior level to provide insights into the full range of the overall operations of the institutions. Eleven savings and credit institutions were interviewed, 7 chartered banks including the five leading national banks and two smaller ones, 4 trust and mortgage loan companies were also interviewed, two large and two smaller companies were selected. Banking institutions which are new to the Canadian scene were also represented in the survey.

General Data for the Financial Institutions

The Financial Institutions which are included in the Finance Sector are many and varied in their importance both in terms of the economy and labour markets. The financial institutions as classified by Statistics Canada include the chartered banks, trust and mortgage loan companies, credit unions and caisses populaires, acceptance corporations, all of which are grouped together as savings and credit institutions; the remaining financial institutions are investment dealers and holding companies which are generally designated as 'other financial institutions'.

The largest group is the savings and credit institutions which in 1979 made up approximately 90% of the total labour force in this area. It is these institutions on which this report has focused, primarily because of their size and their relative importance within the Sector but also because concern has been expressed that large portions of their labour force are particularly vulnerable to technological change.

Table 3.1.1
Number and Asset Shares of Institutions
in the Savings and Credit Industry

	1960		1976	
	No.	% Asset Share	No.	% Asset share
Chartered Banks	8	80[1]	11	74
Trust Companies and Mortgage Loan Companies	N/A	12	69 69	16
Credit Unions and Caisse Populaires	4,667	6	4,037	9
Acceptance Companies and Money Lenders	80	2	42	1

[1] 1961 data.
Source: Canada Year Book, 1962-63 and 1978-79.

In 1980 there are 12 federally chartered banks with approximately 7,400 branches. In 1976 there were 69 trust companies and 69 mortgage companies with approximately 900 branches, approximately 4,000 credit unions and 4 small loan companies, all of which are primarily provincially chartered[1].

The banks are regulated by the Federal Government through the Bank Act which is reviewed and revised every ten years. Only Canadian chartered banks are regulated through the Act however the 'near banks' that is credit unions, trust companies and caisses populaires are administered provincially. Foreign banks were not regulated under the Act until the 1980 revision.

Until the 1967 Bank Act Review the product lines into which each group could enter were essentially restricted. The ceiling of 6% on loan interest excluded the chartered banks from the consumer loans market. Until this 1967 Revision they were excluded from the mortgage lending market again because of the lending rate and also because they were unable to issue their own debentures which would allow access to medium term deposits. The mortgage market had been the prerogative of the mortgage loan and trust companies which in 1970 had 84% and 59% respectively of their assets in mortgages[1]. The bulk of consumer lending came from the credit unions and the acceptance companies which had no interest ceiling on large loans. The credit unions also provided mortgages to their members and about 25% of their assets were so invested with a slightly higher percentage (32%) in cash loans[1].

The 1967 Bank Act Review removed many of the credit restrictions from the chartered banks. The loan ceiling was lifted from consumer loans and the banks could enter the mortgage lending market. The effects on credit availability were dramatic. In 1968 the banks held a total of $4,337 million in personal loans, but by 1979 this figure had risen to $23,086 million. Over the same time period outstanding mortgage loans rose from $1,043 million to $15,115 million, a growth of 1300%. By comparison the trust and mortgage companies had $4,962 million in outstanding mortgage loans in 1968 and $34,625 million in 1979, a growth rate of 600%[1]. Consumer loan growth in the trust and mortgage loan companies outstripped that of the banks, increasing from $167 million to $1,049 million over the same time period[1].

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[1] Canada Year Book various years and Bank of Canada Review various years.

The movement of the banks into consumer loans drew clients from the small loans and acceptance companies. In 1968 a total of $619 million was outstanding in small loans (less than $1,500), by 1976 this had fallen to $234 million[1]. Loans over this amount continued to grow, however much more of this business was in commercial loans, conditional sales agreements and lease financing. The major reason for the immediate loss of business in the small loans area was the difference in interest rates which were charged by the banks compared with the acceptance and loan companies[2].

Table 3.1.2

Consumer Credit Balances of Selected Holders

($ Millions Outstanding)

Year Ending Dec. 31	Banks' Ordinary Personal Loans	Sales Finance & Consumer Loan Companies	Life Insurance Company Policy Loans	Quebec Savings Banks Personal Loans	Department Stores	Trust & Mortgage Loan Companies	Credit Unions & Caisses Populaires	Total
1968	3,673	2,637	553	21	644	—	1,247	8,775
1969	4,157	3,046	660	24	705	—	1,401	9,993
1970	4,663	2,851	759	22	720	—	1,493	10,508
1971	5,777	2,366	784	25	754	—	1,690	11,396
1972	7,144	2,646	813	30	823	46	2,000	13,502
1973	8,878	2,912	884	36	961	82	2,420	16,173
1974	10,817	3,118	1,066	44	1,126	145	2,762	19,077
1975	13,149	3,054	1,149	58	1,232	199	3,243	22,085
1976	16,114	3,014	1,232	72	1,314	287	3,884	25,916
1977	18,634	2,937	1,291	87	1,381	368	4,512	29,209
1978	21,575	3,073	1,367	104	1,519	650	5,490	33,779
1979	25,081	3,072	1,550	142	1,591	981	6,350E	38,767E

Source: Canadian Bankers and ICB Review, August 1980.

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[1] Bank of Canada Review various years.
[2] Loans below $300 carried an interest rate of approximately 25% per annum, between $300 and $1500 12%, and interest rates on loans above that were unregulated.

Consumer credit advances have also been facilitated by the advent of the bank credit card. Prior to the banks entering the field credit cards were the prerogative of the very few whose income allowed them to pass the financial means test of the credit card companies such as American Express and Dinners. Credit cards were primarily used by business men to purchase travel and entertainment and only a few exclusive stores accepted other than their own cards which were given to long term customers with considerable purchases. Many store cards carried no interest.

The growth in customer loans and mortgages was mirrored by a similar growth in the use of cheques, in 1961 payments by cheque amounted to $293 billion, by 1970 this had grown to $796 billion and by 1977 to $2,718 billion[1]. The banks quickly found that they were unable to handle the increased volume of work in the traditional way and both they and the mortgage loan and trust companies invested very heavily in new electronic data processing technology to enable them to handle the ever increasing volumes of paper.

A recent outgrowth of the increasingly competitive consumer loans and deposit market and the growth of user oriented technology has been the proliferation of services which the bank and trust companies offer in the form of different deposit facilities, extended banking hours and automatic tellers. As the competition for deposits has increased and consumers have become aware of rising interest rates most banks and trust companies have developed daily interest demand deposits. Longer banking hours have become important as women have moved into the labour force and so are no longer able to carry out their family's banking during the normally restricted opening hours traditionally held by the banks. Extended hours have become possible as less time is required for tellers to finalize their daily work and as the pool of part-time labour has increased. Automatic tellers, which allow users to make deposits, withdrawals and a variety of other transactions by linking directly into the banks computers at any time, are now commonplace in the metropolitan areas for much the same reasons. Multi-branch banking, which enables the user to access his bank account from any of the

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[1] Canada Year Book various years.

bank or trust company branches, is now growing rapidly as consumers cease to identify with any one branch and look for convenience, rather than a personal relationship with the staff of one particular branch.

While personal banking is still a substantial portion of the business of the banks, trust and mortgage loan companies, substantial changes have come about in other fields. Changes in the 1967 Act permitted these institutions to enter the pension field through the Registered Retirement Savings Plans. Pension plans had previously rested with the life insurance companies, however the competitive interest rates which the financial institutions could now offer drew away a major portion of the overall growth in this form of retirement savings.

The Canadian banks had always played a major part in international commercial banking, but the increase in the size of commercial loans and the spread of international funding into the lesser developed countries created special needs for new types of analysis and new skills. In many banks even large commercial loans had been left to the local credit officer and bank manager but by the 1970's most banks had a separate unit designed especially to evaluate and analyze large scale financing proposals.

In 1980 the Bank Act was again revised, and again the revisions serve to increase competition in the banking environment. The new revisions allow foreign banks to seek Canadian registration. Many foreign banks had been operating in Canada already through affiliates as active lenders in the commercial sector and borrowers on the money market but the new legislation regulates their operations and will also enable more banks to operate in Canada. Entry by new Canadian banks is also encouraged. The banks are not permitted to move directly into factoring conditional sales financing nor leasing, but can do so through subsidiaries. Limits on the amounts of residential mortgages which have restricted the banks in this area are removed. Banks are still restricted from undertaking fiduciary responsibilities which are retained by the trust companies. Their incursion into the registered retirement savings plans and the registered home ownership savings plans is limited to deposit plans, which will retain other forms of the plans for the traditional insurance sector[1].

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[1] White Paper on the Revision of Canadian Banking Legislation and the Bank Act, 1980.

The next section will examine some of these changes together with technological and socio-economic changes both inside and outside the financial institutions in an attempt to establish and define the economic pattern of financial institutions for the next decade.

Economic Conditions by Types of Savings and Credit Organization

This section will analyze the most important changes expected to take place in the next decade for each of the financial institutions discussed above. An attempt will be made to draw distinctions between the different product lines by institutions and to examine the extent to which new technological developments and changing socio-economic conditions will play a part in redefining the sector.

The operations of the chartered banks can be divided into two main areas; those which cover commercial lending activities, and those which are essentially consumer oriented. Commercial lending by banks in Canada has increased over the past decade from $8,654 million in 1969 to $38,842 million in 1979. At the same time there has been an increase in the number of very large loans. Despite these increases 90% of the banks' loans are still to small businesses with an average loan size of $20,000[1].

Large commercial loans are a major source of income for the chartered banks, with a very high revenue return for the number of people which must be dedicated to any particular transaction. The commercial loans business has become increasingly international in scope as companies shop internationally for the best interest rates and repayment terms. It is in this market that the foreign banks will compete most heavily[2]. The foreign banks which are likely to establish offices in Canada are primarily world class banks with substantial expertise in multinational and large project financing.The result may be that Canadian banks will become even more competitive in the smaller commercial loan market.

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1 Factbook, Chartered Banks of Canada, Canadian Bankers Association, 1979/80.

2 The foreign banks are restricted to a very few branches which would make national access to the consumer side of banking on the scale as the Canadian banks almost impossible.

In a growing economy the increased competition would serve as an innovating force, but in a stagnating or slow growth economy which characterizes much of that of North America at the present this important area of bank profits may be destabilized. On the other hand the licencing of foreign banks is likely to lead to a reciprocal arrangement with other countries and allow the Canadian banks to expand their international operations. It may also allow Canadian financing to be provided on a consortium basis for mega-projects which has not been always possible previously. The entry of new Canadian banks is also likely to take place at the commercial level, but the number of these is not expected to be very great.

Many banks are already offering computerized cash management systems and various forms of in-house banking and electronic funds transfer are likely to be available to most corporate clients in the near future. In-house banking allows a company to maintain updated information of its funds positions and so take advantage of interest rate differentials in its day-to-day money management. Electronic funds transfer (EFT) eliminates much of the costly 'float' which businesses must carry when transactions are made by cheque. When EFT is used incoming and outgoing funds are credited and debited immediately. As high interest rates continue there will be more pressure on all businesses to carry out their transactions in this way.

The increasing use of electronic data processing in bank services to the commercial section, as rising costs make it imperative for Canadian businesses to manage the revenue and expenditure flows more efficiently, are likely to increase pressure on the banks to broaden their EDP departments from providing internal systems support to creating special services to deal in business applications. The new Bank Act however does not permit the banks to offer use of computer services to business directly.

Despite the growth in commercial banking, retail customer service still accounts for a major portion of banking activities. Although primary fund generation comes from other investment forms, such as debentures, a very major source of bank consumer loan funds is from consumer deposits. As this importance is not likely to decline in the next decade and there is likely to be increased competition for these funds it is here that major changes in cost control and service are likely to occur.

Technological change in the 1970's was restricted primarily to the internal functioning of the banks. Electronic data processing removed much of the paperwork of posting items to accounts as cheques were encoded for automatic posting. On-line computer terminals at teller positions removed from the teller the problems of daily balancing and increased the number of transactions per day which could be carried out. As labour costs rose tellers were used more efficiently by single line-ups to all teller wickets and by increasing the types and complexity of the services which could be performed by the teller. For example, side counter personnel no longer deal in foreign exchange cash transactions, it has now became part of the tellers job assisted by the new on-line terminals which have made the job easier and more accurate. Further improvements in software now allow the customer to pay loans, bills and a host of other things in the normal course of transactions at the teller's wicket.

In an effort to control the physical expansion of the branches and to allow customers twenty-four hour access to their accounts automatic tellers were installed as the technology became accurate and reliable. Some bank branches are noticing that these machines are in constant use even when the banks are open and tellers are available. In fact it has been observed that people will queue for automatic tellers even when there is no line-up inside the branch. The banks originally viewed the automated tellers as a convenience for their customers but this view is now changing to one of seeing much of the routine work removed from the tellers and the definition of the tellers' duties changing to one of a sales and service representative of the bank.

As costs of building and maintaining branch operations increase some banks, which are making their individual branches profit and loss centres, are closing branches. This trend is likely to continue as the increasing number of women in the workforce reduces the need for neighbourhood banks. At present few banks expect the automatic tellers to replace these branches primarily because the machines cannot undertake sufficient transactions to make them a viable alternative to a full service branch. It is not clear whether with improved technology in the automatic tellers this view will change or whether this technology will be superceded by home based transaction capabilities. What would seem certain is that with 8,300 branches of banks and near banks Canadians are currently 'overbanked' and that in the future these institutions will be forced to scrutinize

the cost of many of the branches which do not have a substantial deposit or loan base. A primary dilemma for the banks lies in their desire to eliminate unprofitable branches and the perception that market share at the retail level is still determined by accessibility and visibility, a perception that has led to the typically Canadian phenomenon of four different bank branches on the corners of an intersection.

Major concern has been expressed that electronic funds transfer will be the next stop in the development of a 'cashless society'. The concern centres around privacy and access control but also around the effect that this may have on bank employment. At present the banks do not see this type of technological change moving down from the commercial to the retail level of banking, primarily because Canadians are used to the 'free-money' float allowed by cheques and credit cards. Until this is removed by even more rapid clearance of cheques or by immediate interest changes on credit purchases EFT will be unacceptable to consumers.

An alternative to EFT may come through the use of home computers which could be linked directly through the communications networks to the bank clearing system. This would allow the consumer to retain control of his banking while permitting direct account to account transfers[1]. There is a concern that banks may be removed almost entirely from portions of the retail service end of banking and that the communications companies would be a major future force in the provision of certain types of retail banking services. In this case profound changes would take place in banking, especially at the retail level, and major dislocations of the labour force may be experienced[2].

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[1] A first step in this direction may be the availability of 'bill-paying by telephone' services which are currently available from some U.S. banks and are already under study by some major Canadian banks.

[2] Banks in the U.S. are much more vulnerable to this type of change. In Canada banking services are so tightly controlled by the Bank Act that entry from companies in another business would be extremely difficult. The banks however may themselves offer the service which would have the same labourforce implications.

The trust and mortgage loan companies face new competition from the banks through the new Bank Act especially in the mortgage loan area. However, some banks which entered the residential mortgage market previously have found that recent interest rises undermined expected profit from this area especially as people became more reluctant to invest in longer term securities and competitive interest rates made money invested in this way more expensive than the longer term return, this experience may reduce the competition of the banks in this area. Despite this the mortgage loan and trust companies are vulnerable to increased competition as they must rely on consumer deposits or mid-term debentures for their loan money, and with increasing interest rates and interest rate differentials between financial institutions this money becomes more difficult to obtain[1]. The trust and mortgage loan companies have, in the past, been aggressive in attracting new deposit customers through a variety of different consumer-oriented deposit alternatives, but they have failed to actively solicit all of a clients banking. This failure compared with the success of the chartered banks in marketing banking packages has resulted in many customers doing only a minimal part of their banking with these institutions, while maintaining other accounts with the chartered banks. Few of the trusts have automatic tellers and until recently few had invested in on-line teller machines which could permit multi-branch banking which had reduced their perceived convenience advantage compared with the banks. These companies had always had longer banking hours than the banks, but the failure to aggressively market total services as a package has further curtailed their ability to be seen as both a convenience and a full-service member of the banking community.

The trust companies are now rapidly computerizing their operations to provide many of the conveniences which the chartered banks offer. On-line and multi-branch banking services should be available from most of the major trusts in the next two to three years. At that time they may in fact move ahead of the banks once again in their consumer oriented services as they will have invested in a later generation of technology.

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[1] Consumer acceptance of 'floating-rate' or very short-term (6 month) mortgages may gradually solve the problem of mis-matches of deposit costs and mortgage income.

The credit unions face many of the same problems as the trust and mortgage loan companies, although they often experience greater customer loyalty. Credit unions have been under considerable pressure with increases in interest rates which have caused a mismatch of deposit costs with mortgage and loan income. It remains to be seen whether they will be able to continue to compete in the new environment to the same extent as previously.

The new Bank Act has substantially changed the environment for the small loans and acceptance companies. While the banks have been entirely excluded from directly accessing the leasing and factoring business, they have been allowed to set up subsidiaries to conduct this form of activity. Several banks have done so already or have entered into arrangements with existing acceptance companies. This will increase competition in this market as it will challenge the acceptance companies' primary source of income. It would seem possible that the number of independent acceptance companies will be reduced over time in favour of those attached to the banks.

In summary it would appear that the major competitive market for all savings and credit institutions will be in commercial lending with much of that competition coming from the newly licenced foreign banks. The retail market will remain competitive but the major concern will centre on the more efficient servicing of that market and its rationalization. The continuation of unsettled interest rates and footloose deposits will present problems for institutions attempting to provide long term fixed rate loans such as mortgages or for those primarily dependent upon consumer deposits for loan funds.

The effects of these many changes on the labour force size and structure will be examined in the next section. Special attention will be given to those areas where there are likely to be substantial changes in skill level or where chronic shortages may develop.

Labour Force Data

The labour force data for the financial institutions are generally poor. There are virtually no sources of completely disaggregated data, and with the exception of the chartered banks no industry data are available to supplement that provided by Statistics Canada.

As discussed previously this report focuses on the savings and credit institutions which are the most important of the two financial institution groups in terms of the labour market. Within these institutions the chartered banks are the most important accounting for approximately 70 percent of all employment in the savings and credit institutions and 66 percent of employment in the financial institutions. Data for the chartered banks are greater in both coverage and depth than for any other group, therefore much of the data in this section will relate primarily to the chartered banks, however because of their substantial impact on employment trends within the financial institutions designation, this derivation can be assumed to be sufficiently reliable for general trends.

Table 3.1.2
Employment in the Financial Institutions, Savings and Credit Organizations and the Chartered Banks 1961-1980

	1961	1971	1975	1980
Total Employment in Financial Institutions	99,472	149,460	188,700	230,000
Employment in Savings & Credit	91,494	132,051	170,621	217,300
Proportion of Savings & Credit Employees Employed in Chartered Banks	N/A	70%	73%	71%

Source: Derived from Statistics Canada 72-002 and 72-603, and Factbook, Chartered Bank of Canada, The Canadian Bankers Association, 1979/80.

Employment in the Financial Institutions has shown long-term stable growth between 1961 and 1980. During that period there has been a growth of 138% in the employment in the savings and credit area, with a growth of 68% in the labour force of banks between 1969 and 1979 alone. The proportion of chartered bank employment in the financial institutions has remained almost stable in the past decade, the increase which occurred around 1975 is probably due to the sudden expansion in the banks of a variety of consumer oriented services such as credit cards.

There is very little information on the distribution of employees within the banks. The 1973 Statistics Canada special report[1] provides a breakdown but as the occupation classes are so little disaggregated the data cannot be readily related to normal occupation classes used in banking. From information received from interviewees the following is an approximate breakdown in occupation groups.

Table 3.1.3
Percentage Distribution of Employment in Banks by Occupation (1980)

Management	11%
Loan Officers	13%
Accountants	5%
Clerical	45%
Tellers	12%
EDP	14%

Source: Interviews and questionnaires.

The 1973 survey showed approximately 25% of employees in non-clerical occupations, compared with 43% in the above data.

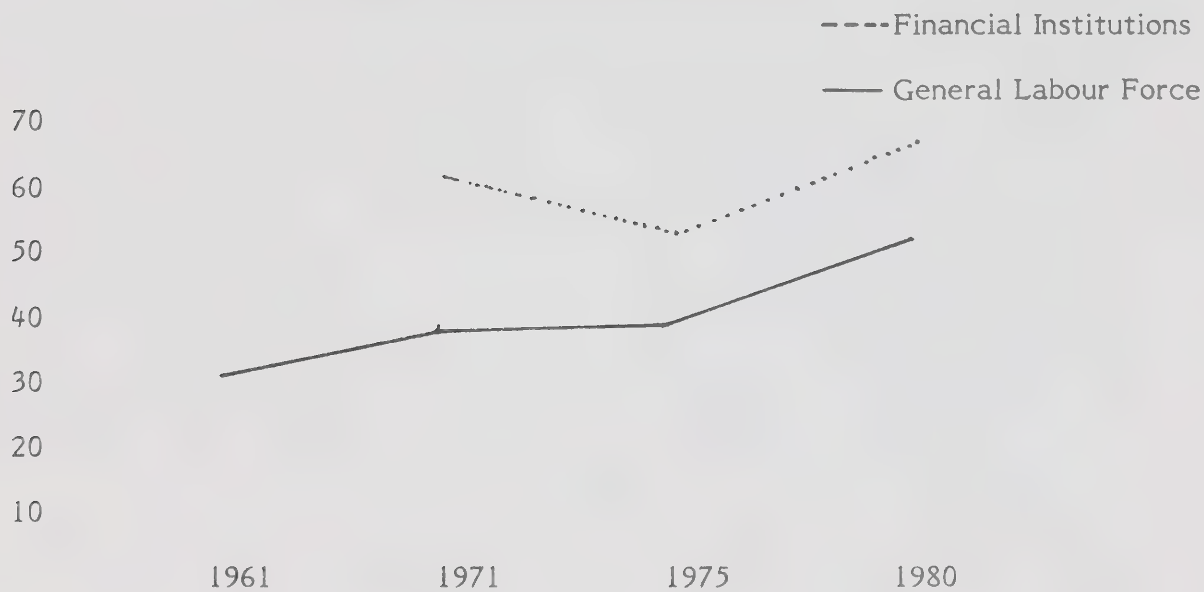
The savings and credit institutions have always been major employers of women. In 1973, 66% of all employees were women. By 1980 this percentage had increased to 70% which is substantially above the average percentage of women in the general Canadian labour force. It should be noted that in 1975 this figure fell to 51% which may have been caused by the rapid expansion of such male dominated departments as EDP and the concommitant reduction of clerical personnel which is primarily female.

In the Statistics Canada survey of 1973 (see Table 2.3) 81% of all clerical workers in the Savings and Credit institutions were female. This was the highest figure for clerical workers in the Finance Sector at this time. Data supplied by interviewed banks and trust companies indicate that this percentage has increased to nearly 90%. Discussions also revealed that many more of the positions in

[1] Statistics Canada 72-603, 1973.

managerial and technical areas are now being filled by women, in 1973 only 22% of non-clerical jobs were occupied by women, while by 1980 this figure was estimated to be nearly 40%. The trend has been especially strong in the retail loans area but women have moved into all management and technical areas.

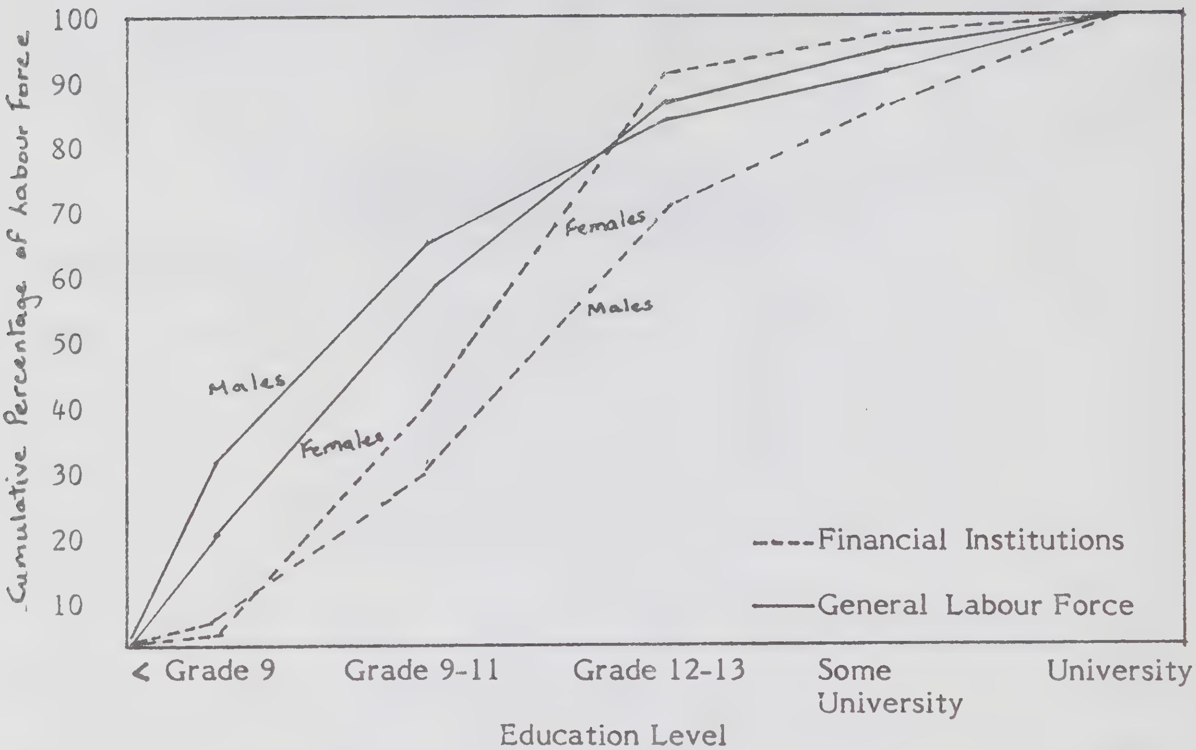
Figure 3.1.1
Proportion of Females in the Financial Institutions
Compared with General Labour Force



Source: Statistics 72-603.

Traditionally the intake level for many positions within the financial institutions has been at the high school or commmunity college level. Prior to the 1970's even management trainees were not expected to have a university education. More recently management trainees have been drawn from increasingly higher education levels, at first from the undergraduate level and now from those with a variety of graduate degrees.

Figure 3.1.2
Education Levels in the Financial Institutions
Compared with the General Labour Force (1971)



Source: Derived from Statistics Canada 94-749

In the 1971 statistics fewer women (4%) than men (8%) had less than Grade 9 education but a substantially smaller proportion of women (2%) than men (12%) had university degrees. 56% of all female employees have Grade 12-13 or above while 72% of male employees have this level. Most of the personnel with degrees at that time would have been in the commercial lending and other more specialized technical positions such as electronic data processing and most of the personnel in those departments would have been male. This is now changing as more women take finance and commerce courses or degrees in Business Administration, which can be expected to lead to an increase in their participation in management and in the technical/specialist fields.

The savings and credit institutions have generally relied on in-house training or industry provided courses which are designed to meet their needs. The Canadian Institute of Bankers is an outstanding example of this type of industry provision.

With the growth in availability of part-time MBA degrees in the major centres the banks and near banks are actively encouraging their employees to take courses by paying for tuition and books. This general encouragement of educational upgrading will considerably ease the demands which these institutions will have for highly skilled personnel in the future.

Planning in the Industry

Strategic planning in the financial institutions would appear to be the most advanced in the Finance Sector. Most savings and credit organizations have detailed strategic plans for the next three to five years, with long-range planning covering an additional two to three years. The plans are interpreted into detailed manpower planning for 12-18 months at present, but some institutions hope to extend this further. Many of the manpower plans also provide some definition of the changes in skill level that are likely to be required in the future at least in general education terms. Although detailed manpower planning extends for a maximum of 12-18, overall indications of requirements are established for a period of about five years at many institutions, and some are able to provide an approximate percentile change for a period of three to five years after this.

Senior executives interviewed felt that the current level of planning had allowed the institutions to engage in substantial job training and retraining at all levels. At senior and middle management levels, long range planning together with the stability of the labour force has enabled career path and succession planning to be developed to a high degree. There was some concern expressed that increased competition for senior management and technical personnel from the foreign and new banks may destabilize the labour pool and that long range planning may not continue to be as effective for this group in the future as it has been in the past.

Personnel planning for clerical groups has not reached the same degree of sophistication as for management employees primarily, it was indicated, because of the high turnover which these groups exhibit however, interviewees indicated, that this was changing as more women, which make up the greatest number of employees in this group, indicate their interest in long-term careers and especially their interest in middle management positions.

The senior executives interviewed felt that overall planning for both technological change and the resultant labour force requirements was of a

sufficiently detailed level to avoid major dislocations especially as there was a committment on the part of the employers to ensure that adequate retraining was made available and that employees were offered other similar positions at the same rate of pay if they did not wish to retrain. Decision makers were cognizant of the concerns of the government over the potential labour force impact of substantial technological change but indicated that previous major changes in technology had been managed effectively by advanced manpower planning and retraining. They also pointed out that the high turnover rate (20%) that is common within this group would minimize dislocation. It was not expected that this rate would decrease substantially in the future even with historically high general unemployment rates.

Interviewees also indicated that the rate of adoption of future technology would be relatively slow especially where it affected the interaction of the institution with its retail clients; that any mass adoption of this type of technology would be very expensive and therefore likely to be undertaken over several years which would place it well within the time horizon of detailed planning.

Changes in institutional activities which were outside the control of the industry such as government legislation were also perceived as having sufficiently long time horizons that there was little expectation of dramatic dislocation in the labour force especially as decision makers from the institutions are normally directly involved in discussions with the government prior to any changes.

Although the smaller institutions appear to do substantially less planning, their personnel plans are perceived by their senior executives to provide adequate foreknowledge to adapt to any internally instituted substantive technological changes which require changes in either skill mix or labour force size. The overall perception again was that future technological change could be prepared for by retraining of personnel or relocation and was not likely to lead to lay-offs.

Outlook for the Future

The following is a discussion of the major trends which the executives interviewed expected to take place over the next decade. As noted earlier, 11 firms in the savings and credit institutions were interviewed including all 5 of the leading national banks. The expectations of the senior personnel have been synthesised to provide a coherent view of the future which can provide a basis for

analysing its expected influence on the three major issues identified for the industry.

The future prospects for the industry can be summarized into three main issues:

a) increase competition between banks, trust companies and foreign banks;
b) increased automation to extend services even further, and to increase productivity of staff;
c) increased expansion into other industries of the finance sector.

a) Increase competition between banks, trust companies and foreign banks:

The major competition for market share will come from two directions; the trust companies for increased consumer services and the foreign banks for increased commercial services. Senior trust company officials indicated that the trust companies will go through the same extensive automation which the banks have followed, however they are likely to extend it backwards into other areas such as pension administration and funds brokerage. It was perceived that the foreign banks are likely to be exceedingly competitive in the commercial field offering expertise and analysis of the type which has not generally been a major thrust for Canadian banks.

The ability of the banks to create leasing and acceptance style companies will introduce substantial competition into that market which will further reduce the loans base of the acceptance companies, and it is expected that the number of independent companies will be further reduced over the next five years. On the other hand as the bank subsidiaries enter the market they are likely to require experienced personnel and so a substantial number may move to these new businesses.

Competition throughout the savings and loans institutions is likely to be based on service rather than price as service charges are a relatively minimal part of most commercial or retail loans. In the commercial loans area this will lead to substantial changes in hiring practices, especially in the banks where it is now being accepted that many aspects of commercial lending can be taught to specialists from other fields, whereas it is extremely difficult to

provide bankers with the engineering experience to assess risk in many of the new resource-base areas which are demanding large commercial loans.

Commercial loan areas which primarily assess small business loans may also have to increase their staff, but this will depend on the stability and growth of the Canadian economy. Any major economic recovery is likely to increase demands for loans in this sector and this may further strain the banks' personnel resources, especially as foreign banks are also likely to enter this field at the same time as they enter the larger loans field. The banks and near banks do not see this area becoming heavily EDP-based despite the fact that there is obviously a place for data processing in removing much of the clerical work from the loan officers and so increasing their efficiency. As much of this work is carried out at the branch level the incentive for purification of this job is reduced unless consumer loans are handled in the same way as the same loans officers frequently services both groups. It is also felt that loan applications need to be written out in a face-to-face interview as this gives the officer time to assess the more intangible side of the risk. The future blend of personal service and 'terminal-based' analysis will depend on hiring policies for management trainees and the emphasis that is placed on the prospective employee's ability to handle simple interactive terminal devices in an everyday work environment. The employment effects are uncertain as overall growth is likely to increase demand for employees, but greater efficiency would lower the size of the growth taking place. Empoloyees are already raising their quality and educational expectations for new employees and this will rise even further if these jobs have much of the clerical work removed.

Major personnel demands will be in the international and commercial loans departments where the influx of foreign banks all needing the same types of specialists will increase competition for a relatively small group of specialists. Increases in the total number of employees in the loans area of the financial institutions are forecast at approximately 15% between 1980 and 1985 and an overall increase of 40% from 1980 to 1990. Even the former small increases indicate the need for 4,000 additional loan officers by 1985.

Some institutions are already finding that turnover rates are increasing in what previously had been one of the most stable areas in terms of

personnel. Individual executives however did not anticipate any serious shortages, many feeling that their current recruiting drives especially at the business administration schools together with their own training programs would be sufficient to supply the necessary personnel to meet their objectives. However it should be noted that Canadian business schools are unlikely to expand rapidly in the future and that the resource-based industries have a very high demand for experienced personnel in the areas of finance and accounting. If there is an even more substantial demand for personnel by the foreign banks, this formally very stable area of the financial institutions labour force could be considerably destabilized and the supply of labour to present institutions further curtailed. While the institutions, in the past, have generally frowned upon employees with multiple job changes, in the future they may have to accept that a considerable portion of their specialist staff has a high mobility and is unlikely to stay if there are insufficient challenges. It is doubtful that this segment will develop the excessively high turnover of the EDP personnel but instability is likely to be long-term and chronic.

b) Increased automation to extend services even further, and to increase productivity of clerical staff.

Increased automation will come in two main areas: at the commercial level the integrated clearing system is likely to move business customers more quickly towards the EFT system; at the retail level the use of remote access or customer terminals will increase the productivity of counter staff by leaving them free to sell new products and provide more personal service. The increased use of automatic funds transfer or even electronic funds transfer is expected to have only a small impact on personnel needs in the banks and near banks as the bulk of cheques are written by customers at the consumer level. Already many large businesses keep control of their funds through management systems linked to the banks and EFT is likely to be a minor extension of these services.

At the consumer level technological change will be the key to changing personnel demands. More and more of the routine process are likely to be computerized so that jobs at the branch level will become more involved and will focus on sales and service. The use of automated teller machines and a

variety of related interactive devices will allow customers to do most of their basic banking either interacting directly with the central computer or with a central service area. However executives in the banks and near banks did not expect these machines to replace the full range of services supplied by the current branch system. Home computer direct access may remove more routine work from the branches by the end of the decade, but none of the executives interviewed saw this as indicating a major change in employment levels. Internal automation is likely to continue but at the present most of the institutions perceive that it will be primarily restricted to clearing house activities rather than directed at improving the productivity of loan officers or any other middle management function, here again no major employment patterns were expected to change despite the fact that this may assist the institutions to overcome the probable supply shortage of personnel in these areas.

Branch rationalization was primarily viewed as a way of increasing productivity and continuing full service offerings to the public, all interviewees indicated that lay-offs from the expected closings would be minimal especially as provisions were always made to offer affected employees positions at other branches.

It was not expected that any of these changes would cause the number of clerical workers to decline, but rather that the growth of this portion of the labour force would be considerably slowed over the next decade. Anticipated growth rates given by senior executives would indicate that the number of clerical workers and tellers would increase minimally (2%) by 1985 and by 5% between 1985 and 1990.

Part-time clerical employment may decline absolutely if the complexity of the retail banking environment makes it increasingly difficult to accept the lack of continuity inherent in a part-time labour force. Part-time employment is however only 7% of the total labour force engaged in clerical work.

The major employment impact will be on the number of EDP staff required to implement these changes. It is anticipated that EDP departments will grow rapidly and the banks foresee a demand for approximately 14,000

more employees in this area by 1985 with a further growth of 26,000 between 1985 and 1990, by 1990 this will mean that staff in this area has more than doubled. All institutions face similar increses in demand for personnel that are already in very short supply and there would appear to be no short-term solution to the high turnover rates in this area as long as the supply is relatively short and demand expands rapidly. Shortages of staff in this area may reduce the speed of technological change in other areas especially where the impact on productivity is not perceived to be that great or where consumer acceptance is expected to be difficult.

The most major change in personnel requirements is likely to be in the skill mix required of new entrants. The required education level is expected to remain the same for clerical workers but all interviewees noted that the preferred candidates will have to demonstrate superior academic skills and an increased ability to market the services of the institutions.

c) Increased expansion into other industries of the finance sector.

The banks and near banks are likely to continue their pressures on other firms within the sector especially those in the life insurance industry by increasing their trust into RRSP's and life insurance products associated with them. Other areas of interest are financial planning which is currently the primary perogative of the investment dealers and financial planners in the investment homes. The impact on the current dimensions of the labour force in the savings and credit institutions is not clear, but the trust companies would appear to be in an appropriate position to offer these services through extensions of the current trustee functions from which the chartered banks have been excluded. On the other hand there is some indication that investment dealers may be attracted to the relatively small but profitable self-administered section of the RRSP market much of which currently rests with the banks and trusts.

Several interviewees from non-banking institutions indicated their concern that the blending of sector industries will increase by the end of the decade as savings and credit institutions try to expand their retail market share by expanding their range of consumer services.

The geographic distribution of employees is likely to change minimally in the next ten years. Expansions in the West at the retail level are likely to be more than counter balanced by new employment emanating from the foreign banks concentrated in Toronto and Montreal. Banks are likely to remain very centralized at the commercial level and while much of the resource financing will be required in the West or on the East coasts it is not expected that personnel will be distributed to meet these new markets.

At the retail level branch expansion is expected to continue to occur in the Western Provinces but will not provide the same coverage as previously. This expansion may provide more job mobility for women wishing to move into middle management as branch managers and loan officers. Optimism was expressed as to the geographic mobility of women in these positions as it was felt that frequently the woman's salary may be the major source of income for the family and so determine its mobility.

In summary employment growth in the savings and credit institutions is likely to be substantially below the rates experienced in the 1970's. Between 1980 and 1985 the growth is expected to be 11% and for the whole decade 35%. Most of the increase is expected to be absorbed by the EDP and commercial loan departments which are expected to grow by 132% and 40% respectively between 1980 and 1990. Serious shortages in experienced specialized personnel are likely to continue for the balance of the decade but these shortages are unlikely to be amenable to easy resolution by the institutions themselves. Little growth is expected at the clerical and teller levels (7%), however in absolute numbers this growth is still expected to be approximately 9,000 people by the end of the decade. Historically high turnover rates, retraining, and substantial personnel planning are likely to absorb the impacts of any technological change internal to the institutions. Even the abrupt introduction of home computer interfaces with banks are unlikely to lead to a substantial portion of retail banking being removed from the branch system in a manner which would lead to serious dislocation. Electronic funds transfer based on retail outlets is also likely to be introduced so slowly that its impacts will be buffered in the same way.

3.2 The Insurance Industry

Methodology

The primary issue for the Commission in examining the insurance industry were whether an increase in the level and rate of change of technology would seriously reduce the number of clerical positions available to lower skilled workers, and if industry employment would be further destabilized by the unstable economic environment. Three hypotheses were developed around these issues. It was hypothesised that:

a) the industry has undergone dramatic and far-reaching changes in the past 15 years and that these changes are creating a substantial redefinition of the industry.

b) the major threats to the industry are:

   - rapidly escalating wage, processing and claim costs,
   - increased sophistocation on the part of the consuming public together with a loss of company loyalty,
   - changing demographic and economic patterns which have created different marketing problems,
   - expansion of the credit and savings institutions into product areas previously restricted to the insurance companies,
   - increased regulatory and legislative intervention on the part of governments.

c) the response of the industry will be to invest heavily in the EDP technology to eliminate routine clerical work, to broaden services and proliferate products through increased attention to the highly specialized areas of economic activity, and to apply increasing pressure on governments to forestall further erosion of the product base.

These hypotheses formed the basis of the questionnaires which were administered to senior personnel in the industry. Interviews were conducted with executives in personnel planning and administration or with owners or senior personnel in agencies. All personnel were able to provide substantial overviews of the entire industry. In all 12 companies were interviewed four in each of life and general insurance and 4 agencies including one commercial agency and three mixed agencies, one handling primarily personnel lines. The companies were selected on the basis of their size and methods of marketing their products. An attempt was

made also to include companies that represent the international distribution of insurance companies in Canada.

General Data on the Insurance Industry

The insurance industry can be divided into two main product groups; life insurance together with pensions, annuities, sickness and injury benefits, and general insurance, that is, property and casualty protection. Some companies sell the whole range of products, others specialize in one group or the other, while still others specialize in a single product or part of a product.

In Canada the major life insurance companies are Canadian companies which have substantial overseas branches. The reverse is true in the case of the casualty companies, most of which are subsidiaries of British or American companies, however it should be noted that several companies which were previously branches of British or foreign carriers have now become Canadian insurers in their own right.

Table 3.2.1
Nationality of Insurance Companies in Canada by Assets (1979)
($ 000,000)

	Canadian	British	Foreign
Life	38,002.7	241.8	191.5
Property/Casualty	1,770	119	59.7

Source: Canadian Life Insurance Facts, Superintendant of Insurance Report.

In 1979, there were 172 Life Insurance Companies of which 111 wrote both life and accident and sickness. In that year Canadians purchased $55,211 million worth of life insurance and owned $381,072 million; they owned 1,225 million annuities for which they paid $2,545 million in premiums in that year alone. Annuities accounted for the greatest income for these companies, about 60% of all business.

The life insurance industry is dominated by two companies; Great West Life of Winnipeg and Sun Life of Toronto, which write all lines of life and health; the largest participating life company is London Life of London.

Table 3.2.2
Share of Total Life Insurance
Assets of Leading Life Insurance Companies(1979)

Sun Life	18%
Manufacturers Life	13%
Great West Life	4%
London Life	9%
Canada Life	8%
Mutual Life	7%

Source: Report of the Superintendant of Insurance, 1979.

The casualty market in Canada is more decentralized. In 1979 there were 232 property casualty companies. The market place was dominated by Royal Insurance of Toronto with a market share of 10%; its closest competitor was Commercial Union of Toronto with 7.77%. The market share of other companies was considerably smaller.

Table 3.2.3
Market Share of Leading General Companies, (1979)

Royal	10.00%
Commercial Union	7.77%
All-State	3.36%
Co-operators	3.35%
Zurich	2.70%
Guardian	2.45%

Source: Report of the Superintendant of Insurance, 1979
[1]Figures for other years were not comparable as definition of the market previously included government insurers.

All the major companies write a variety of business, but some of the very small ones specialize in the classes they write. The major premium generator is automobile; in 1979 it accounted for 45% of total premiums written. Property insurance accounted for 41%, while non-automobile and other casualty lines made up the remaining 14%. Total casualty/property premiums amounted to approximately $5,000 million dollars in that year.

Both life and casualty insurance are sold through agents or brokers to the general public. In Canada, it is customary for life assurance agents to be licensed with only one company. Independent agents and brokers for casualty insurance are

licensed with one company as sponsor, however normally they have contractual arrangements with many others; the exception to this are the 'direct writers' who have 'tied' or company agents and sell directly to the public. This form of business is most common in the 'personal lines' area. Companies offering this service are in the top five insurers in Ontario, and the two major writers, All-State and Co-operators, are ranked third and fourth in market share for the whole of Canada with a total of 6.71% of market.

In 1980 there were 38,000 casualty agents in Canada operating 13,000 agencies, 70% of which were one-man operations (agency staff averaged roughly two clerical workers per agent). Many agencies are family businesses based on a local area and handling personal insurance and insurance for small businesses, sometimes insurance is a part-time activity coupled with another occupation. The major exception to this is the large, commercial insurance agencies which specialize in placing risks for very large corporations. Many of these are international companies with head offices in the United States. While the smaller agencies may offer both life and property insurance the commercially oriented brokerages often only insure personal property for the senior officers of their major clients. The large brokerages will also provide outlets for the smaller agencies when these have a commercial risk which is too large or too difficult for them to place through their own group of servicing companies.

All agencies and brokerages are paid by commission based on the type of risk placed with the company. Commission scales are generally universal but some companies offer lower rates when they are offering very attractive prices to increase their market share, or may offer higher rates again when they are attempting to increase market share but feel unable to decrease the insurance premium required.

Finally behind the general insurance companies stand the 'reinsurers', or the insurance companies of the insurance companies. The reinsurers are especially important for the smaller companies which would not have the internal financial backing to write sufficiently large amounts of business to overcome the inherent underwriting instabilities. The reinsurers are essentially world wide financial companies specializing in the insurance business. Agreements between the companies and their reinsurers generally specify what volume of business on any particular line or any one risk will be accepted and what limits to any line or risk are aceptable. This primary underwriting rôle serves as a guide to the insurance companies themselves.

The industry as a whole is highly regulated and is policed by the Superintendent of Insurance for each province and for Canada. Regulation of investment is particularly strict and companies are restricted as to the debt instruments which they can purchase and to the percentage of equity shares in their overall portfolio. The restrictions mean that the companies may only operate for the most part in the long-term bond and mortgage markets. The companies must maintain a large proportion of premiums secure against total liabilities.

Barriers to entry into the 'wholesale', that is underwriting side, of insurance are not that great, and in the re-insurance market are restricted to financial barriers which are substantial but not prohibitive. On the retail side the new company must either supply its own agents or convince already established agents to write business with it. All insurance companies writing business in Canada must comply with Provincial or Federal regulations. For re-assurance however it is possible for a company to be 'offshore' and therefore not to come under these regulations. It is then merely a matter of financial resources. During upswings in the profitability of investment from insurance premium cash flow the Canadian market attracts considerable numbers of unregulated off-shore re-insurers who are not in the insurance business but rather in the investment business. These funds tend to be involved in world wide investment return maximization and therefore less stable than those in the regulated insurance and re-insurance business. Underwriting requirements by the off-shore re-insurance companies may often be less stringent than those permanently involved in the insurance business as investment cash flow is the primary objective. In downturns these companies are frequently involved in 'rate-wars' which deprive the long-term insurers of much needed premium increases and enhance the cyclical nature of the industry as a whole.

Barriers to entry at the retail level are minimal. All provinces require agents to have a licence, however licence requirements are generally minimal. The companies must be convinced that the agent has sufficient financial resources to carry on business. With more public pressure, in the future, on the quality of advice which agents can give, these standards may be raised somewhat but not sufficiently so as to act as an effective barrier to the flow of agents into the industry.

Economic Conditions by Product Lines

There are two central divisions within the products of the casualty companies. The bulk of all premiums written are 'commercial' - that is insurance provided for commercial enterprises of all sizes for such items as fire insurance on buildings, equipment and machinery; theft; business interuption; product liability; employee bonding and commercial automobile. 'Personal lines' insurance provides insurance for private individuals most commonly insurance for automobiles, houses, cottages and personal possessions, and makes up the bulk of all policies written. In most companies this division is only effective at the underwriting level where more highly trained and experienced personnel are used to handle commercial business.

Automobile insurance has traditionally generated the largest premium volume, although this leadership is being eroded as an increasing number of provincial governments take over non-commercial automobile insurance. In 1971 automobile insurance accounted for 54% of premiums written and in 1979 only 45%. The percentage of property insurance has risen from 33% of total net premium dollars in 1971 to 41% in 1979.

Life insurance companies offer two major services, financial protection and accumulation of savings. Assurance and insurance offerings centre around financial replacement after death and income replacement for losses caused by accident or sickness. The most major component of most companies services however is in the area of pension and retirement plans together with estate services.

Life insurance can be bought either as group plans, for example through a union, company or professional association, or by the individual. While individual policies account for the largest percentage of business, there has been a substantial increase in group premiums over the last ten years.

Table 3.2.4
Percentage of New Life Insurance Business Written By
Life Insurance Companies in Ordinary Life
Compared with Group Life (%)
1965 - 1979[1]

Type/Years	1965	1975	1978	1979
Ordinary	66	52	53	55
Group	34	48	47	45

Source: Report of the Superintendant of Insurance, 1979.
[1] Last year available.

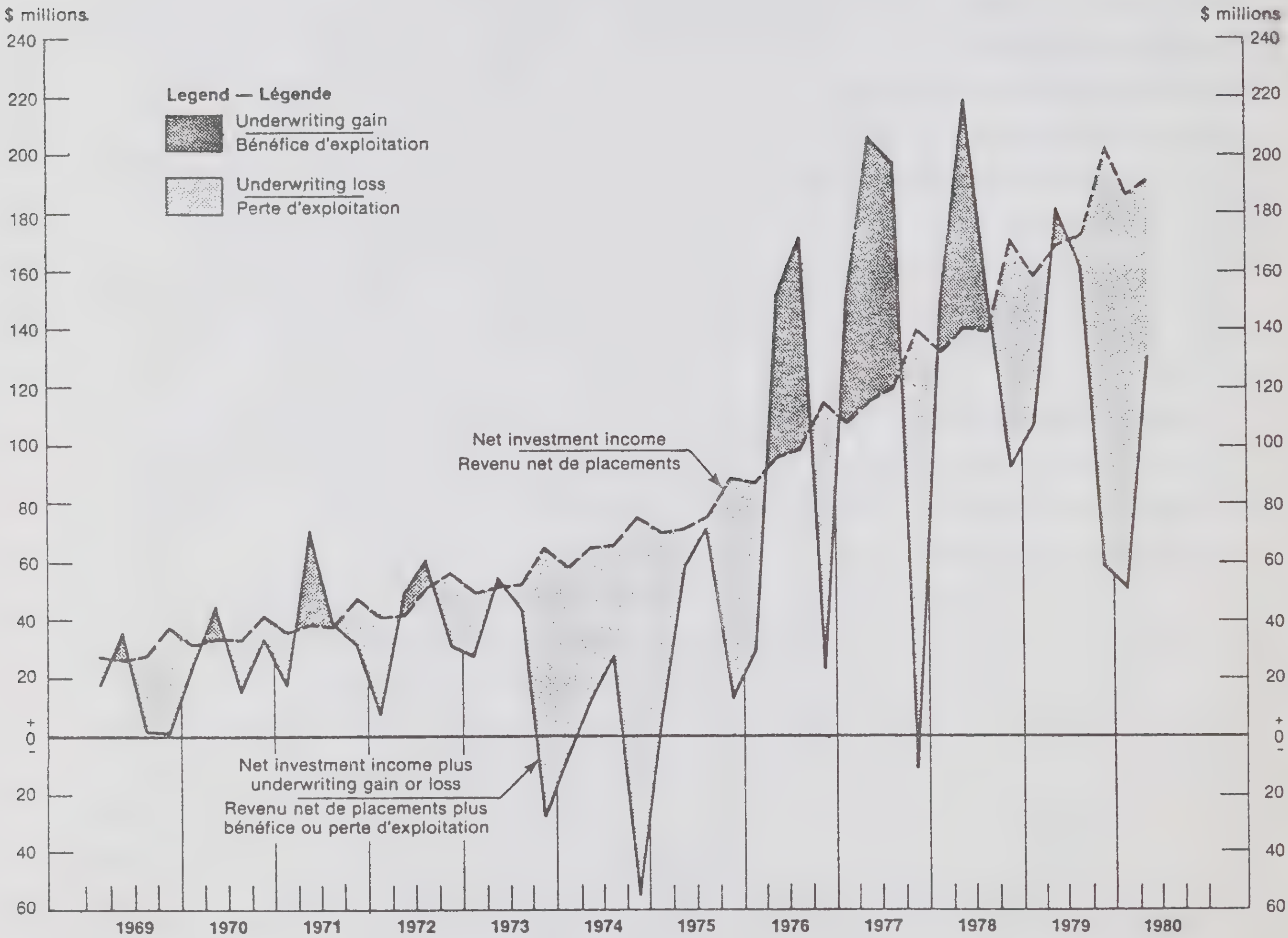
There has also been a substantial shift in the type of life insurance being purchased, with the cheaper term insurance now increasing in volume. In 1976, 47% of individual life insurance was term insurance while 53% was permanent cash-value insurance, by 1979 these figures were almost reversed at 52% term insurance and 48% permanent insurance.

The life insurance companies offer both group and individual pension plans. The group plans, like the group life plans, are available through unions, company and professional associations; individual plans are available directly from the companies and since the 1971 change in the Federal Income Tax Act are mainly Registered Retirement Savings Plans or are supplements to these and company plans. Annuities are a means of spreading income into the future. Frequently they are purchased from the accumulation of money in a pension plan, but they are also available in the form of an income averaging annuities which assist people with large and variable income flows to even out their income and their tax burden. During the 1960's group annuities from pension plans made up 75-80% of total annuity premiums but by 1979, 50% of that premium income was from individual plans. Annuities, as suggested earlier, are a very major source of investment funds for the insurance companies. The policy reserves held by the companies are an indication of this; in 1976 annuity reserves were 47.9% of total reserves, a figure which had risen to 60.2% in 1979.

During the 1960's and early 1970's, both casualty and life companies in Canada experienced a stable, profitable and relatively non-competitive envionment. The economy and labour force were expanding ensuring all of an expanding and profitable market. Costs both of operations and claims were relatively predictable and investments could be made in a relatively stable investment environment.

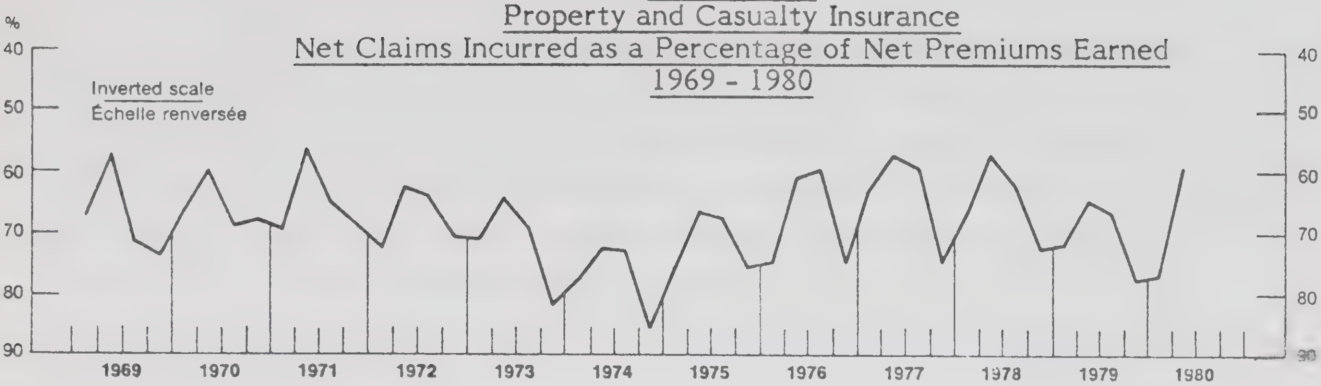
In 1974-75 the industry as a whole experienced a dramatic down-turn. Inflation suddenly reached two digits, the Canadian and American dollars started to fluctuate widely, and the first substantial movements in interest rates appeared. The casualty companies were the first to exhibit major losses and in those years showed an overall net loss of approximately 5% with claims rising to 80-90% of premiums.

Figure 3.2.1
Property and Casualty Insurance - Underwriting Gains and Losses Compared with Net Investment Income 1969 - 1980



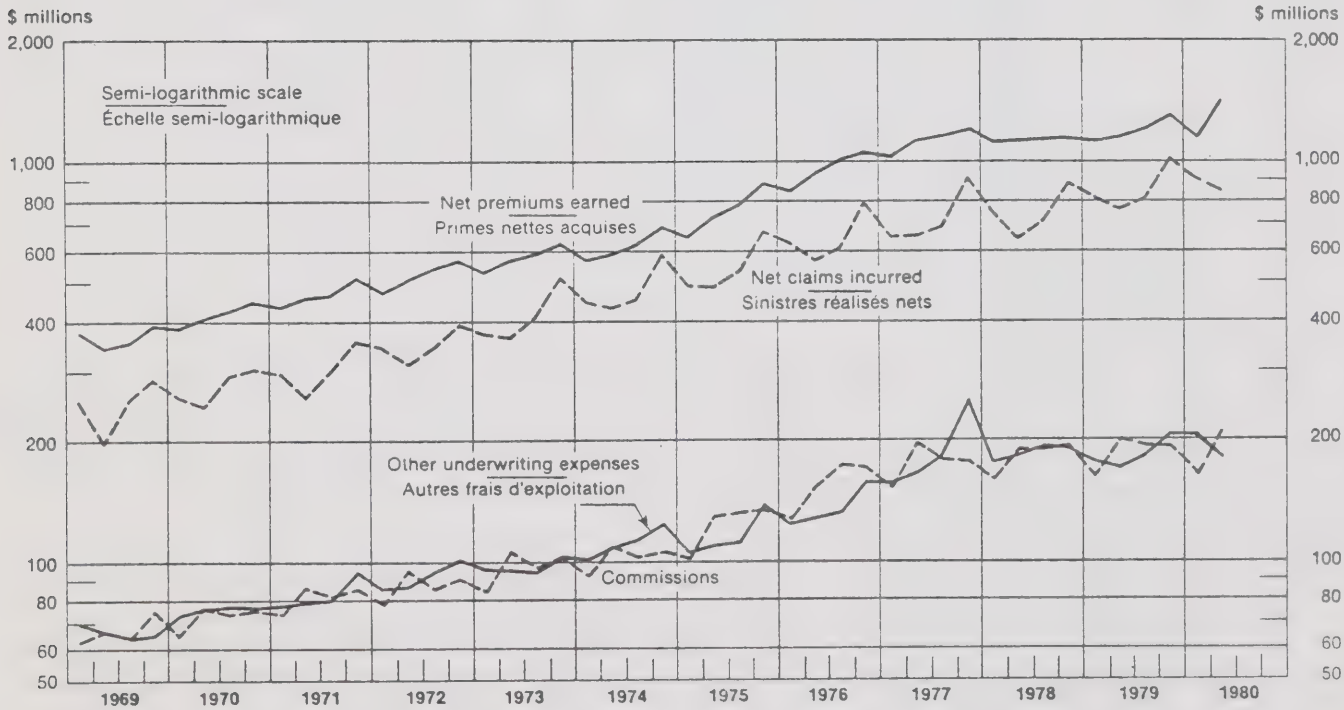
Source: Statistics Canada Financial Institutions 61-006, 1980 (2nd quarter)

Figure 3.2.2
Property and Casualty Insurance
Net Claims Incurred as a Percentage of Net Premiums Earned
1969 - 1980



Source: Statistics Canada Financial Institutions 61-006
1980 (2nd quarter)

Figure 3.2.3
Property and Casualty Insurance - Net Premiums Earned,
Net Claims Incurred, Commissions and Other Underwriting Expenses
1969 - 1980



Source: Statistics Canada Financial Institutions 61-006
1980 (2nd quarter)

Automobile claims led the way with rapidly excelerating costs, closely followed by Accident and Sickness as soaring hospital costs took their toll.

The following table shows the 'loss ratio', that is the ratio of losses incurred to net premiums earned for automobile, and accident and sickness, insurance. While both classes have displayed an historically higher loss ratio than other classes of insurance these losses were dramatically higher than before and were for a more prolonged duration than had happened previously. Both the high loss ratio and its duration were caused by a series of factors both internal to and external to the industry.

Table 3.2.5
Automobile and Accident and Sickness Loss Ratio
for Canadian Business
1970 - 1979

	Automobile %[1]	Personal Accident & Sickness %[1]
1970	67.7	75.1
1971	71.0	79.0
1972	75.3	79.1
1973	78.5	75.5
1974	83.3	77.5
1975	78.1	76.8
1976	70.4	78.1
1977	69.1	83.7
1978	71.8	81.6
1979	78.1	87.1

Source: Report of the Superintendent of Insurance, 1979.
[1]Ratio of claims to net premiums earned.

As the economy slowed and businesses cut back on inventories, labour forces and expansion plans, competition for a shrinking pool of clients increased. An increase in the number of bankruptcies and continued business uncertainty served to diminish the market further.

During the three years preceeding 1973, the profits in the insurance industry attracted many investors, who saw the industry in terms of investment returns rather than as a business selling insurance. This was particularly true in the general insurance industry and when major declines were first felt it was these insurers who reacted by attempting to retain their cash flow through increased market share rather than through the increased premiums which were warranted by the increasing cost of claims.

Personnel lines business, which is generally written for only twelve or even six month terms suffered the most as consumers camparison shopped and became less willing to renew their policies automatically. Increased consumer shopping forced a continuation of 'rate wars' with many companies discounting the rates published by the Underwriters Association. It was during this period that there were a substantial number of companies amalgamating or even leaving the Canadian markets. Some companies withdrew from the 'personal lines' market completely where competition was originally fiercest, but have found the 'commercial' market even more competitive.

For much of the seventies casualty companies have had to supplement premium earnings with a substantial flow from investment income and all that has saved many from serious difficulties has been the period of exceptionally high interest rates.

In addition to soaring claim costs the companies were faced with escalating internal processing costs. Many companies considerably reduced the size of their clerical labour force by not replacing the normal wastage brought about the 20-30% turnover rates. Companies which had previously hesitated to invest in and use computers to eliminate repetitive clerical jobs, invested quickly in the hope of improving efficiency and increasing productivity.

To meet increased competition for a stable or even shrinking market, the companies have attempted to produce more consumer oriented products tailored to meet the needs of the general public and specific client groups. The continuation of the rate wars however has meant that net premiums have increased very little over the past three years. Large premium increases are now indicated for 1981 but it remains to be seen if the leading companies can regain the price leadership which they lost in 1974-75.

The life companies were similarly trapped in the net of rising costs and highly unstable interest rates. On the accident and sickness side this has meant increased levels of claims, but there has been a much more serious effect on the investment function of these companies. The regulatory control of investments curtails the companies' abilities to move to shorter-term, higher interest investments, while the companies have had to begin to compete against other financial institutions for retirement plans and annuities from those plans. Although the life companies assets have grown at a faster rate in the past five years, they have not kept pace with the asset growth of the chartered and near banks. The trend to group insurance will

generally mean a smaller and more competitive environment especially in the short-term. The market is further tightened as individuals turn to cheaper term insurance and manage the investment function for themselves.

The life companies have also found that loans against cash value policies have increased substantially. These loans are made at 6% with no pay-back schedule, all of which is a considerable advantage to the client but help to undercut the companies investment position.

Internal increases in productivity are more difficult for these companies to obtain as they had made a substantial and early committment to computerization so that many routine clerical functions had been computerized by the mid-seventies.

The effects of the severe economic swings in the insurance industry have had a major impact on the insurance agents. The public's move to term as opposed to permanent life insurance has reduced commission income substantially for many agents, while the competition with the other financial institutions for pension plans and annuity contracts has had a further major impact in a tightening market. For personal lines agents the depressed rates, especially in automobile insurance, have substantially reduced profit margins. Many agents are finding that the more lucrative commercial market is intensely competitive especially as many major corporations now employ risk managers of their own. The result has been that many part-time agents are leaving the industry and many one or two-man operations are amalgamating with or selling out to larger firms. There is likely to be continued concentration of this segment of the industry as the cost-profit squeeze continues.

Increased pressure for stricter licencing standards for agency personnel is likely to enhance this trend. In Massachusetts enforced licencing reduced the number of agencies from 1,600 to 800 in five years and the entire U.S. agency force was halved in ten years. By the end of 1981 in Ontario all agency staff which give advice to the public will have to have the same licences as those which only agents have currently. Senior agency executives see this as having two effects; some longer term employees may have to be laid-off or have their jobs reduced if they are unable to pass the examinations, but the overwhelming result is expected to be that internal staff will be seen as being more professional and therefore of more value. Very small agencies which cannot afford to train or have licenced staff

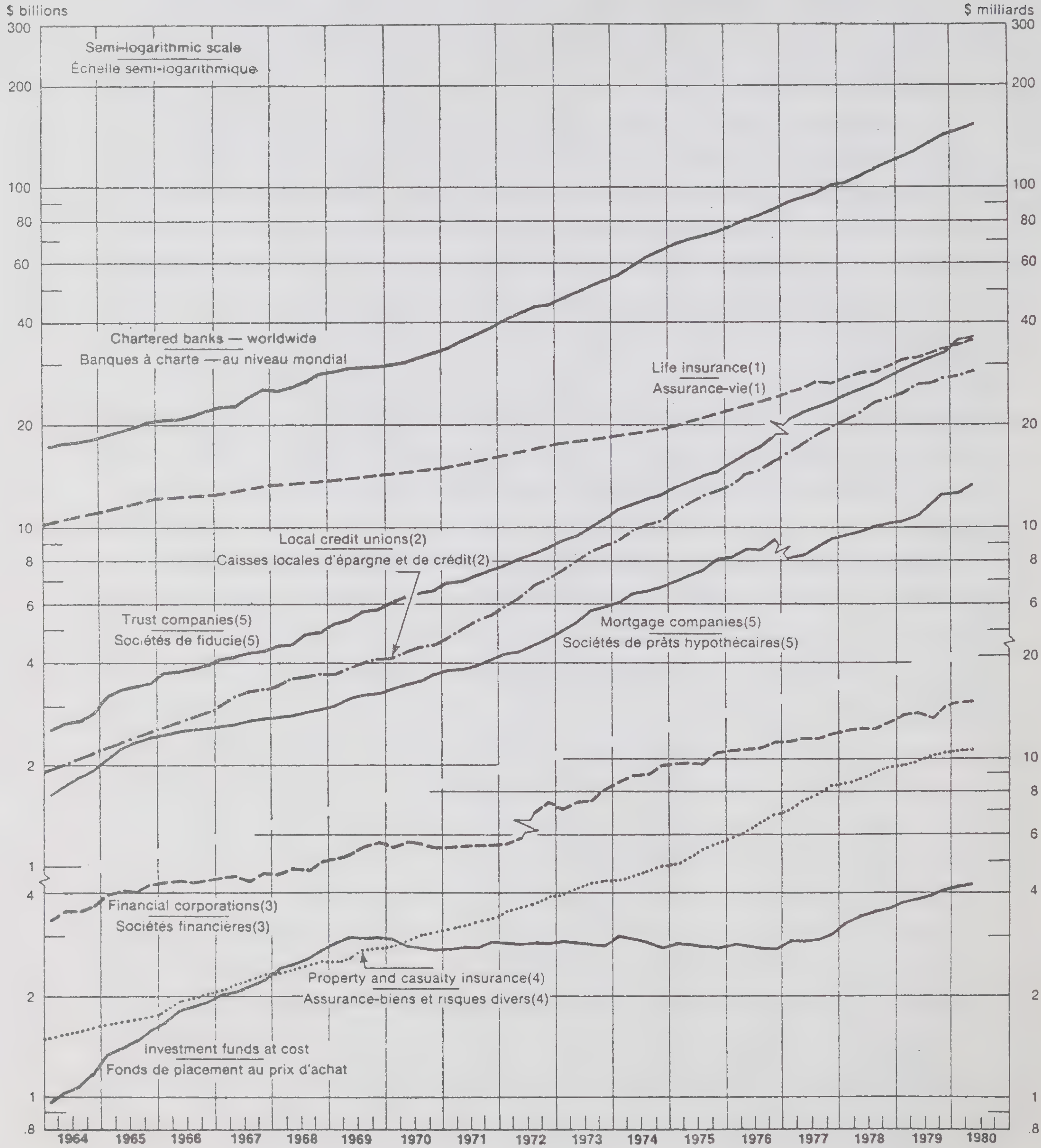
may be forced to amalgamate with or sell-out to larger firms. The stability of the industry is likely to be somewhat affected for a short period especially as licenced staff are likely to be able to command a premium for a period. On the whole however senior executives saw this trend towards greater education and professionalism as a stabilizing move for the industry although they did not foresee any major drop in traditionally high turnover rates.

The agencies are also turning to increased computerization to solve some of the cost problems. Most agencies do all internal bookkeeping by either external batch processing or by their own mini-computers. Many agencies are now buying computers that in the future can be linked to company computers so that routine policies and policy changes can be done in their own offices. A major blockage to this move has been the multiplicity of systems within the insurance carriers themselves so that many agents have been reluctant to purchase equipment until the companies with which they deal settle on a particular system. New advances in computer compatability are likely to overcome this hurdle in the near future. For those agents dealing with complex risks with many alternative insurance options, both in life and commercial insurance, computerization of policy option analysis is already more routine.

Word processing machines for proposals and for routine mailings speed the agents' work and allows him to access a wider population than has previously been possible. Future links between a word processor and an in-house computer will eliminate much tedious book-keeping and allow the agent to keep a much closer control on agency cash-flows.

Figure 3.2.4

Financial Institutions — Growth Trend of Total Assets



Source: Statistics Canada Financial Institutions
61-006, 1980 (2nd quarter).

Labour Force Data

Employment in the Insurance Sector must be examined in three main groups:

a) life insurance companies,

b) property/casualty companies,

c) independent agencies.

The data from Statistics Canada are generally too broadly defined or are not disaggregated sufficiently to provide sufficient depth for a detailed examination of the industry therefore industry data will be used in the following analysis.

The data used in Table 2.1 are those provided by Statistics Canada in Employment Earnings and Hours of Work. The data are divided into two groups: insurance carriers and insurance agents, data for the latter are combined with those for the real estate industry. Neither of the breakdowns are useful for a detailed examination of the industry. The insurance carriers are not divided into life and general companies and as different trends apply to the two industries, aggregated data does not supply adequate indication of employment trends. The amalgamation of the data for insurance agencies with another completely dissimilar industry prevents any useful forecasting of employment based on those data. The problem of the data base for insurance agency employment is further compounded by the inclusion in the data only of firms with more than 20 employees; as 70% of insurance agencies are one-man operations, the data base therefore ignores over three-quarters of the firms in that segment of the industry. The industry data include all employees of the life and general insurance companies and the independent agencies and are therefore not reconcilable with the data displays in Table 2.1.

Table 3.2.6
Employment in the Insurance Industry
1975* - 1979

	1975	1976	1977	1978	1979
Life	48,300	48,900	48,900	50,400	52,800
General Casualty	40,000	N/A**	40,000	42,000	44,200
Independent Agents	37,000	N/A**	38,000	38,200	38,850
Others	4,000	N/A**	4,500	4,700	5,200

*Data are not available for the General Insurance industry prior to 1975.
** No survey was undertaken in 1976 by the Insurance Bureau of Canada.
Source: Facts of the General Insurance Industry in Canada, Canadian Life Insurance Facts

Employment has been very unstable within the industry for the period 1971 to 1979. The most recent figures (1980) of Statistics Canada indicate that employment in the industry has rebounded past its 1971 total. Industry figures are not available to indicate in which area this upturn is occcuring but it is safe to assume that it is taking place mainly in the companies themselves while the number of independent agencies remains stable.

The following table (Table 3.2.7) provides the most complete disaggregation of insurance personnel currently available on an industry wide basis. It provides some indication, when taken together with the estimates provided in Appendix 2, of the areas where there are a preponderence of clerical workers which may be effected to some degree by technological change. It also provides an indication of historical employment trends in the industry on which all forecasts are based. Data prior to 1975 was only available for the life insurance industry, and no survey of the general insurance industry was undertaken in 1976.

Table 3.2.7
Employment in the Insurance Industry
by Type 1975 - 1979

			1975	1976	1977	1978	1979
Life-	Administration-	H.O.	22,300	22,600	22,200	23,400	24,600
		Branches	7,600	7,600	7,600	7,700	8,400
	Sales-	Supervisory	2,500	2,400	2,500	2,400	2,500
		Agents	15,900	16,300	16,600	16,900	17,300
General-		Companies-	40,000	N/A	40,000	42,000	44,200
Independent Agents-			37,000	N/A	38,000	38,200	38,850
Others-			4,000	N/A	4,500	4,700	5,200

Source: Facts of the General Insurance Industry in Canada
Canadian Life Insurance Facts

As can be seen from the table, between 1975 and 1979 there was a negligible growth in employment for the various sectors of the industry. In both segments of the industry primary growth has taken place in the head office staff, but this may be due to reorganizations of work or, in the case of the general insurance industry, a recovery from the 1973-75 slump during which companies reduced their staffs either through lay-off or non-replacement.

The insurance carriers have always been a major employer of women, however the percentage of female employment within the industry is now very close to that in the total Canadian labour force.

In the Statistics Canada survey of 1973 (see Table 2.3), 79% of all clerical workers in the Insurance Carriers were female. This figure was the lowest for clerical workers in the Finance Sector at that time and discussions with the industry reveal that, increasingly, women are filling positions such as underwriters and adjusters which were primarily filled by men ten years ago. This trend is likely to continue as companies promote from within by preference.

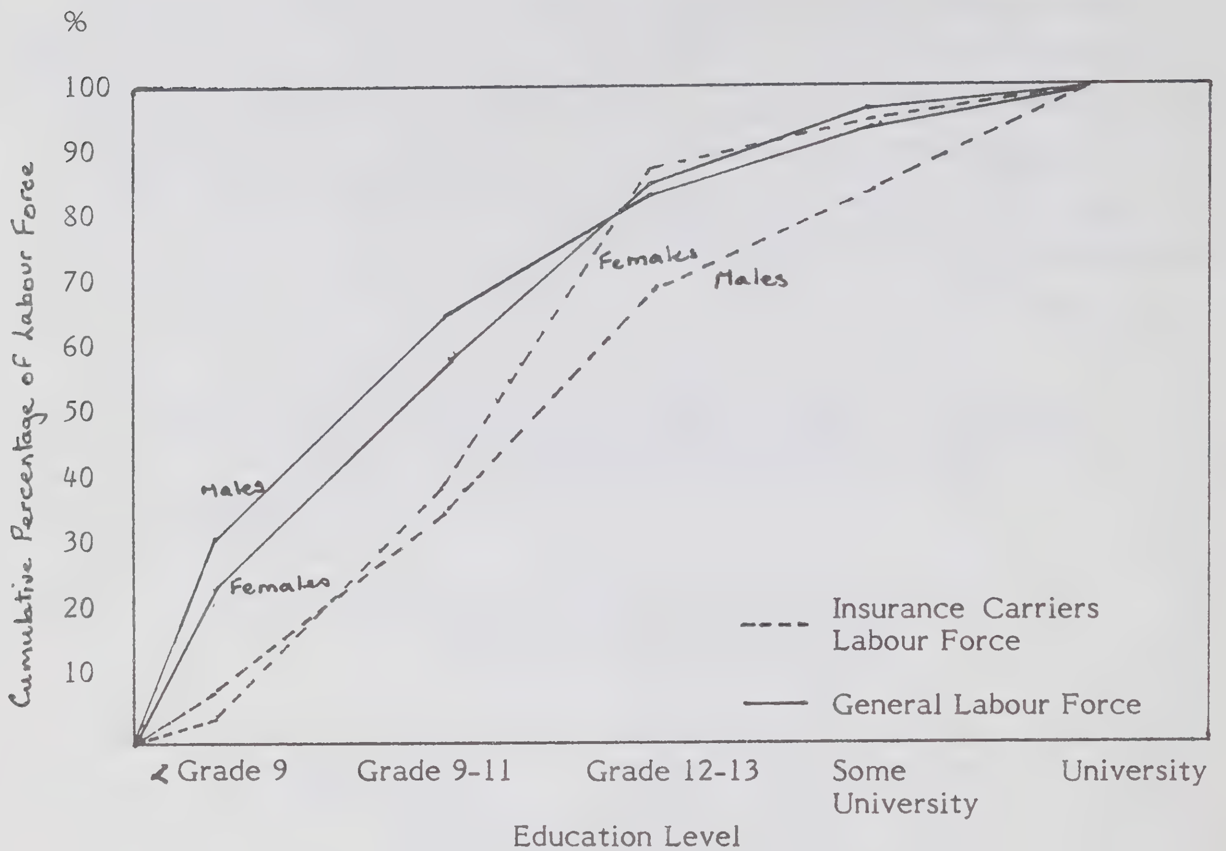
Figure 3.2.5

Percentage of Females in Labour Force of the Insurance Carriers Compared with that in the General Labour Force

Source: Derived from Statistics Canada 72-002 and 72-603.

Traditionally the intake level for the insurance industry has been from high school and community college graduates who have entered the industry at the lower clerical, underwriting and agent levels. The bulk of entrants have grade 12-13 with very few having a university degree.

Figure 3.2.6
Education levels in the Insurance Carriers
Compared with the General Labour Force (1971)



Source: Derived from Statistics Canada 94-749.

The labour force of the insurance carriers is better educated than the general labour force with a much larger percentage having Grade 12-13 education and above. The exception to this is that there are fewer women with university education in the insurance labour force than in the general labour force; this may be brought about by the type of university and technical skill training required by the industry as most personnel with degrees are in the highly mathematical areas of the business such as actuarial, finance and EDP departments, areas for which few women qualified in the past. It should be noted that these are 1971 data and all interviewees noted that they were now finding more women with the required qualifications.

For the most part the companies rely on in-house training or industry provided courses which are specially tailored to all aspects of insurance work such as underwriting, adjusting and claims. This is a practice in long-standing which will assist the companies in their future requirements for re-trained personnel. This practice however has often meant that the companies' reactions to changes in the market place have been very traditional and that the internal structures were not adaptable to change. Hiring practices are changing slightly as the need for specialized risk management has become obvious. Some companies are now hiring experts in major risk fields such as oil and gas engineers and then giving them formal training in underwriting to supplement these skills. Finance departments are now assuming a much more prominant rôle and it is likely that more university graduates with commerce backgrounds will be hired to supplement and deepen these activities.

Traditionally the major exception to the high school intake level has been the actuarial trainees who must have a strong mathematical background and where the minimum level of acceptance would be a B.Sc. in mathematics. Trainees then proceed to certification by a series of independent study courses administered by the Society of Actuaries. Until recently the major demand for actuaries came from life assurance companies, and there were very few casualty actuaries, most of whom worked with such industry service groups as the Canadian Underwriters Association, which established and published rates for member companies. Increased product competition within the casualty industry is increasing company demand for casualty actuaries at a faster rate then they can be trained, which takes approximately 6 years. This is leading to some 'raiding' especially by smaller companies which can neither afford nor wait while they train their own actuaries. The shortage of actuaries may hold back the industry's response to changing product needs to some small degree.

The shortage of EDP personnel appears to be substantial and chronic. While the major insurance companies have been a training ground for this type of personnel it has not made them immune from shortages as they have been regarded as providing a trained labour pool by other companies both inside and outside the industry. The lowering of education standards required for some programming jobs as computers have become more sophistocated has increased stability but for the

next three to five years companies expect higher turnover rates in this area than in other technical areas. Instability and shortages of personnel may slow some technological changes within some companies.

At the agency level there has been no minimum level of formal training, and as pointed out previously, the provincial licencing requirements are minimal. This too is changing as consumers demand more expertise from their agents both in casualty and life. The agency associations and the companies are actively involved in encouraging agents to undertake upgrading courses offered both by the Insurance Institute and by the Agency Associations, however few of the older agents have become involved in these to any substantial extent. While the primary intake level is likely to remain at the grade 12-13 level there will be increased emphasis on the better educated of these graduates for the basic training positions, especially where licencing of most staff members becomes mandatory. Increased consolidation of the agencies will reduce the number of clerical openings in that level of the industry while increased computerization will lead to increased productivity for remaining agency staff.

Planning in the Industry

Very little long-term strategic planning is carried out in the industry, especially where external changes may have primary impact on the basic underlying assumptions of product and investment management. Where these plans do exist they are only infrequently translated into longer term detailed personnel planning. Only two of the companies interviewed had detailed manpower planning which extended beyond twelve months. Several other companies indicated that they were now undertaking more substantial planning and it would seem likely that many more will extend their planning functions if the current economic instability continues and the benefits of longer term analysis become apparent.

In most cases the absence of personnel planning was not expected to result in major problems for the companies. A large number of their employees are drawn from labour force groups where there is an abundance of labour at the present time. Where there are chronic shortages most interviewees felt that planning would not assist them in ensuring the number of staff needed, this was especially true of EDP personnel and actuaries where the market place is so competitive that even companies which have substantial training programs cannot count on maintaining adequate staff to meet both their own demands and persistent 'raiding'.

In answer to questions concerning possible dislocation of clerical workers brought about by changing technology senior executives pointed out that substantial changes have been undertaken in the past with no major redundancy of personnel partly because of retraining programmes, partly because of high turnover rates and partly because the industry's need for personnel is still growing albeit at a slower rate. The rate at which new technology is adopted is under the companies control and therefore expected changes in staff requirement can be handled through non-replacement or the use of temporary staff.

Externally induced fluctuations were generally perceived as being unmanageable especially those precipitated by government takeover of large segments of the industry. It is these which were perceived as being the source of major dislocations which would not be managed by normal attrition patterns. In the past government takeovers of automobile insurance have resulted in major departments being closed, or left with very little to do. In these cases the executives interviewed indicated that the companies attempted to absorb as many people into other departments as possible. The cyclical downturns in profitabliity brought about by economic conditions both internal to the industry and in the overall economy frequently lead to patterns of substantial redundancy but with the exception of the major downturn of 1973/74 industry executives felt that the greater part of the excess in the labour force was met by the normal attrition pattern which is between 15% and 25% among clerical workers.

As a whole the executives interviewed felt that their companies had a responsibility to their employees to provide alternative positions and retraining for those made redundant by technological change and therefore that this should be part of their manpower planning function. This responsibility was not felt to extend to redundancy created by government legislative changes nor to general economic changes.

Outlook for the Future

The following is a discussion of the major trends which interviewees expected to take place over the next decade. As pointed out earlier, 12 companies were interviewed in all 4 life insurance companies, 4 general insurance companies and 4 agencies. The perspective for the future was based on discussions of the patterns within the industry which had prevailed over the past twenty years and is here presented as a sythesis of the majority viewpoints of the executives interviewed.

From the interviews conducted in the industry three main issues for the mid-term future emerged:

a) continued rising costs in an unstable investment and economic environment;
b) increased competition in the marketplace for an increasingly sophistocated consumer;
c) increased government intervention and actual involvement in the industry.

While different segments of the industry may face different dimensions of these issues, it is these three areas which provide the greatest impetus for change and will have the most profound effect on the management of the labour force.

a) continued rising costs in an unstable investment and economic environment.

As discussed previously in the context of the seventies rising costs and the instability of the economic environment will continue to have enormous impacts on the needs of the companies for increased productivity. As illustrated in Table 2.4 a large percentage of the total labour force of both the casualty and life companies is still engaged in a variety of clerical jobs such as filing, rating and policy production. Extensive use of electronic data processing is expected to reduce the number of these jobs significantly, while also reducing the percentage of time underwriters especially in casualty companies are involved in clerical efforts. As the more routine and humdrum jobs are removed, all interviewees stress that their companies will require a different type of person to fill positions at all levels. Essentially the entrance level job will require more academic high school qualifications, more flexibility of skills, an understanding of computer use and, for office staff, this will be extended into familiarity with the current level of office automation.

None of the executives interviewed expected that there will be any large-scale redundancies from technological change but that the normal turnover rate of approximately 20% will provide sufficient flexibility for change to be undertaken on a consistent and planned basis. Employees that remain with the companies will

be retrained and their skills upgraded so that they are able to undertake a wider variety of less routine jobs.

Over time some executives expect that much of the clerical work currently done by underwriters will be removed, purifying this job, and increasing both efficiency and productivity. Employees in this area will be more highly trained, and will probably require some basic computer skills so that they can use interactive terminal devices for data processing and storage. However as terminal and computer languages become more interactive in normal English, these skills may only need to be minimal. It is conceivable that the coding function and the underwriting function could become one single action rather than being separated into underwriting and clerical responsibilities, with much of the routine underwriting work being carried on by current clerical staff aided by routine software packages.

The labour force implications of these types of changes were thought to be relatively minimal as there is a current shortage of fully trained and acceptable underwriters who are currently over-burdened. The changes are likely to be slow as this was not perceived as a major problem area and the general companies, which are those most affected, are still in the relatively early stages of fully integrating electronic data processing into their operations.

In actual fact the removal of much of the routine coding work may come about through the increase use in agency offices of mini-computers. Many of the agents interviewed experienced frustrations at the delays currently being experienced in the issuance of small routine policies and policy amendments which are currently written up in their offices but have to await processing by the companies at their central locations, involving high costs of processing for both the companies and the agencies. This duplication of processing and record-making is seen as a major cost for both companies and agencies but there was concern expressed on the part of the agents that the companies would retain all the savings created by the agencies doing this work. A major stumbling block to the successful evolution of this method of handling routine policy work was also perceived to be the inability of the companies to settle on one single EDP package which has slowed the agencies' abilities to computerize their own operations. Several executives were concerned as to the compatability of their own systems with those of more than a few of their contracting companies. If the insurance agencies, do, in the future, take over much of this work this could reduce the number of people

required by the companies to carry out coding functions in the departments where it is more or less a routine job. If this change is compounded by the integration of the underwriting and coding as discussed in the previous paragraph much of the need for company coders could be reduced. Both of these changes, however, are likely to be slow, the company changes would be slowed by their perceptions of the cost of the current systems and the agency pressure for change is likely to be slowed both by their concerns that they would receive few gains from the additional effort and also because the greater part of the agencies, as yet, have not computerized their own operations.

A major area of internal cost is EDP personnel. At present there is a serious shortage of highly trained analysts and programmers but, as discussed previously, it is likely that the present high salaries and extremely high turnover rates will continue for this level of specialized skills beyond the next three to five years. The interviewees expressed the hope that the increased use of packages together with their increased flexibility and the insurance companies increased familiarity with computerization will help to eliminate the need for the presently high mobile segment of that labour market, systems analysts. As more graduates become available from high schools and community colleges, companies hoped to be able to fill their requirements more readily, although it is likely that the labour pool training function of the larger companies will continue for several years.

b) increased competition in the market place from increasingly sophisticated consumer

The increase in competition for a stable or diminishing market was expected by all executives to continue through the eighties or as long as the present economic uncertainty prevails. The uncertainties of the seventies have produced a less passive, more cost conscious consumer. The 'new' consumer is no longer content to automatically renew his automobile or house insurance, no longer content to accept uneducated advice on the protection of his place of business, or on the tax investment effects from the purchase of certain types of life insurance. Both agents and company executives pointed out that in the past agents in both life and casualty fields have, for the most part, had a relatively low education level, but an outstanding ability to sell. The sale of either casualty or life insurance is the sale of an intangible that no one wishes ever to use; selling life insurance means bringing people face to face with their ephemerality, property insurance is always

'too costly' until the day of the fire or theft. Company executives and the agents indicated that in the future, the ability to sell must be linked with higher education skills so that agents are capable of explaining in fuller and more exact detail the more complex property, life and pension policy options which are now being made available. In the past few years, the concept of risk management has grown up, and now the independent professionals in this field are seriously challenging the agents as placers of large risks. The presence of the professional risk managers will increase competition for major commercial policies which are a major source of income to the larger brokerages. If this competition then filters down to smaller commercial placements the agents interviewed expected that competition between smaller agencies for both commercial and individual business would become much fiercer and that the survival of the very small agencies would then be seriously threatened.

Under these pressures, all parties expect agency consolidation to continue and companies to become increasingly selective of the education and training background of their agents. Agency clerical staff are not expected to be substantially effected by agency consolidations as servicing of the purchased clients will require continued increases in staff, however increasingly sophisticated technology will mean that there will be no dramatic increases in clerical staff hiring which in the past have been concomittant with substantial increases in business. Clerical staff who, in the past, have received little formal training are expected to also upgrade their skills in the future, especially in jurisdictions where it becomes mandatory for them to be licenced. Most agents expected to continue hiring high school leavers but would expect in the future that they have more academic skills to enable them to undertake more formalized training.

A major effect of the increased competition on the companies has been to increase the importance of the actuarial staff in product development and longer-term market development. This has created a need in the casualty companies for actuaries as more companies develop their own rate structures. Most of the casualty actuarial work has been and will continue to be confined to the commercial lines where actuarial rating is mixed with considerable underwriting discretion to produce a competitive offering. It is in this area and in that of life

insurance that the development of new products and markets will become of paramount importance and where, most executives agree, new actuaries must be far more socially aware than their predecessors.

Many companies which use independent agents are concerned that a further consequence of the cost/competition squeeze in which the industries find itself may be an increase in the power of the 'direct-writers'. These companies are extremely large, for example All State Insurance and Co-operators Insurance hold approximately 7% of total market in Canada. In Ontario, three of the top five companies are 'direct-writers', which because of their sheer size can offer competitive rates on all lines and their products, especially commercial lines, are now increasingly sold by independent agents. In such a dispersed market as that of the casualty insurers even a small change in market share may be sufficient, during the current economic down-turn, to eliminate several of the smaller companies from the market place. As the direct writers are sufficiently large to engage in substantial media advertising it is very likely that market expansion by these companies will take place within the next three to five years.

c) increased government intervention and actual involvement in the industry.

The involvement and intervention of the government in both casualty and life areas is seen as a major threat to the industry. British Columbia and Saskatchewan both have provincially sponsored automobile insurance plans, while Quebec has recently removed the Bodily Injury Liability section from the purview of the commercial insurers. Although automobile insurance is an area of high claims cost it is also a major generator of premiums so that while, in many cases, its removal to the public sphere can relieve companies of a major loss leader, it also removes a major source of income. As automobile insurance is compulsory in all provinces it often serves as a loss leader in the retail sense as frequently where people place their automobile insurance they fill the balance of their insurance needs. Therefore in some ways this incursion by the government is seen as the initial step towards the regulation and 'nationalization' of other types of insurance in the same way that provincial hospitalization plans removed the base of medical insurance from the private carriers. The effect on the corporate labour force can be very large as frequently 60% of clerical and technical personnel may be involved in handling personal lines insurance. Although necessarily government schemes would require

some of this labour force, it is not clear that all of it would be required as any government take-over could be accompanied by a very high level of automation.

For the life companies, government intervention is seen to form a pincher attack; expanding other financial institutions into products which have traditionally been the domain of the life companies such as retirement savings plans, pensions and annuities, together with restrictions on the type, duration and quantity of investment of the life companies which would allow them to respond to short-term financial market changes. Other institutions which would have more flexibility in their investments can offer very competitive returns on retirement investment.

Although personal savings in life insurance companies has expanded rapidly in the past three years, that in the chartered banks, trust companies and credit unions has expanded even more rapidly, and part of this response is thought to be attributable to the availability of the tax shelters through these other institutions.

For the life insurance companies the area of most concern is the present pressure on governments to change or restructure the entire pension plan system in Canada. Movements towards indexing or universality of substantial pensions could pose major adjustment problems for the industry.

Movements by the government into non-discriminatory rating could have profound consequences on the actuarial relationships between risk and investment in both casualty and life fields. Already in Ontario there is considerable pressure to remove age and sex rating from automobile insurance. Discriminatory pricing for life insurance and returns on annuities has already been investigated by the British Columbia Human Rights Commission. Future changes in this direction could have substantial effects on present company investment functions and could cause substantial restructuring of the industry itself as life policies and annuities are based on very long term actuarial relationships and are often written many years previously.

In summary the outlook for the insurance industry is very mixed, and is not likely to improve until the economy itself stabilizes and revitalizes. Industry growth rates in terms of assets and sales are expected to be in the lower range of 5-10% for most casualty companies and 10-15% for life insurance companies. Employment growth however is expected to be negligable with minimal growth (1-3%) in the life companies and negative or stable (-1-2%) in the casualty companies.

Even this minimal growth will be concentrated into a very few areas. The most rapid growth is expected to be in the area of technical specialists such as EDP personnel, actuaries and finance experts. Many executives expect their company's demand for EDP personnel to more than double in the next five years with a much slower expansion to 1990. This would mean an increase of approximately 4,000 jobs by 1985 in the EDP departments alone, with an overall increase of the specialist groups of approximately 7,000. The number of clerical jobs will decline slowly and from data received from the industry it would appear that there will be approximately 6,000 less jobs in this area by 1985 and a total of approximately 14,000 less over the whole decade. The expected overall decline for the decade of 25% is well within the 20% per annum turnover rate for clerical workers and therefore no industry officials expect large lay-offs to be caused through the automation of routine jobs. If the casualty companies cannot regain a corrected underwriting balance some redundancies may occur but these are expected to be cyclical in nature with consequent re-hiring on the following upswing.

At the agency level there is expected to be an overall decline in the number of agents, but the total agency force personnel reduction is not expected to exceed 27% over the decade or 16,000 people. This reduction is likely to continue to be slow with much of it made up of people retiring from the business.

While the industry can no longer be expected to absorb the historically high numbers of high school and community college graduates, it should be remembered that even small percentage increases in the labour demand which can be expected on a cyclical basis will lead to substantial numbers being hired. Although labour force demands by the industry are likely to decline the high turnover rate endemic to the clerical group is likely to provide many job openings for new entrants as it will consistently overshadow the small annual decrease in the total number of jobs.

The most significant change in the labour market demand will be in the skill mix with most jobs requiring either substantial technical skills or much higher academic education. It is this change which may influence the number of high school graduates that can be absorbed by the industry unless there is a change in the perception of the requirements of these jobs by this group of the labour market.

Of more major consequence in terms of the labour market are the external destabilizing economic conditions. The presence of the off-shore re-insurers leads

to a more profoundly cyclical response of the profits of the insurance companies, deepening troughs and lowering peaks by continued rate wars. These cyclical movements will undermine the ability of the casualty companies to maintain labour force stability and are likely to cause a repetition of the lay-off/hiring cycle seen in the 1970's. The pressures from the governments to take-over portions of the industry or arbitrarily to restructure the rate making function may create major difficulties especially for the smaller firms. These changes are less manageable by the companies and therefore they have the potential for substantial lay-offs.

The projected employment figures for both the industry and the agencies were based on a projected growth that was not destabilized by rapid government intervention or increased rate wars. If the remaining areas of private automobile insurance are taken over interviewees indicated that casualty industry employment could be reduced by as much as 20-30%, substantial intervention in the pension or annuity market could lead to similar reductions in the life companies. The effects on agency staff could be even more serious as the backbone of most casualty agency business is automobile insurance, and the major source of income for most life insurance agents are the large front-end commissions received from pension and annuity plans.

If there are continued and escalated rate wars in the absence of continued very high rates of return on investment income there may be substantial declines in the numbers of casualty companies in Canada together with an increased pace toward technological change in an attempt to increase productivity and reduce costs which may lead to further more minor reductions. It is therefore not totally inconceivable that employment levels in the companies by 1990 could be only a little above the 1961 level (Table 2.1).

3.3 Real Estate Industry

Methodology

The primary issue for the Commission in examining the real estate industry was whether substantial technological change in that industry could seriously reduce employment especially among clerical workers. Three hypotheses were developed around this issue. It was hypothesised that:

a) the industry was operating in an unstable environment that caused employment to be highly cyclical,

b) there is increasing consumer pressure on certain segments of the industry for more professional and cheaper services,

c) much of the industry labour force is self-employed and very mobile,

d) technological change within the industry is not likely to be rapid, but that change may come from outside the industry when it does come.

These hypotheses were used as the basis for the questionnaires which were administered to senior personnel in the industry. Interviews were conducted with executives in 5 firms, all of whom were involved with either the actual sale of properties or with the management of agency staff. The companies were selected on the basis of their size, market share of the industry or of an area in the case of smaller firms, and whether they were owner operated, a branch office, a head office, a franchise or part of a non-real-estate organization such as a trust company.

Real Estate Industry Basic Data

The Real Estate Industry can be divided into two main product groups; commercial and residential. Commercial real estate covers everything from the small corner store or a single vacant lot to major downtown commercial towers, large industrial complexes and major development acquisitions. Much of the former is handled by the smaller brokerages, but the major part of the latter is handled by the very large national brokerages with a specialized commercial staff. Residential real estate is most commonly single family dwellings, condominium apartments or small multi-unit dwellings. In Canada the developer usually establishes a sales office of his own, staffed by company employees, so that real estate brokerages normally work with owners of individual homes in the resale market.

Real estate agents earn commission on properties sold, therefore the more properties an agent is able to list the more likely he is to sell or to share in the sale of a property. The normal fee for residential properties is about 5 to 7% of the selling price with the selling and listing agents dividing the fees. The brokerage retains approximately 50% of the fee the agent receives although this varies with the experience and proven efficiency of the agent. Many agents receive a base salary when starting and then receive a small (1%) commission over and above that base for the first year. Commercial sales may have a set fee or a much lower percentage fee as the total value of the property is considerably higher.

Agents are licenced through the provincial governments. The Real Estate Boards are mainly a publicity agency although they provide some education facilities. All provinces require the prospective agents to take a course and a test, but the stringency of the test varies widely. Only in British Columbia are the number of agents entering the field regulated; there the limit is 200 for each course offered at various times of the year with places available on a first come basis. Only the larger firms are able to provide continuous and substantial educational upgrading for their managers and commercial agents.

Although agents may work with a particular brokerage they are not its employees. The brokerage may release any agent that is not producing, however in most cases it will be the agent who moves to a different firm which he may perceive as being better placed in the market. Many brokerages supply little more than a telephone answering service and a desk, frequently shared with other agents, and therefore have little incentive to remove even the most unproductive of agents from their roster as any sales which the agent makes helps to support the overhead of that office.

With the exception of a very few major firms, real estate brokerages serve a local market. The local nature of the market has produced a highly decentralized industry with only three firms holding a substantial market share. The dominant firms are the A.E. Lepage, Royal Trustco and Canada Permanent Trust, which together have a market share of approximately 20%. A.E. Lepage is a major firm in the commercial market with offices across the country, while both Royal Trustco and Canada Permanent play a significant role in the residential market especially in the major metropolitan areas. The size of these firms makes national advertising possible, but despite this most communities have several real estate brokerages. It

would appear that the success of a firm in the residential market lies with the ability of its agents to develop a local reputation and to be on the spot when a homeowner decides to put his property on the market. The commercial market also relies on the sales and reputation of the brokerage but in that market it would seem that the reputation of the firm is based on the technical skills of the brokerage to assist in investment definition, determination of suitable properties for long term large capital employment and the arrangement of substantial financing.

Residential property selling is a personal service market. The agent is normally required to assist the prospective buyer in selecting properties to visit, driving the client to see the properties and explaining any financing terms available. With the exception of the Trust company based firms the agents supply little assistance to the client in finding additional financing. When an offer for a property is made the agent normally acts as an intermediary between the client and the listing agent and seller.

The decentralized nature of the residential and small commercial market has led to the need for a more efficient way of matching potential buyers and sellers and most metropolitan based real estate boards offer some form of multiple listing services (MLS) through which a brokerage can inform other brokerages of properties which it has available for sale. Properties listed in this way can be shown by firms other than the listing agency and the commission is divided between the listing and selling brokerages. A very small service fee is charged by the Real Estate Boards to the brokerage for the listing service. As the use of the service lowers the amount of commission potentially available to the listing brokerage there is less tendancy to use the MLS when the market is moving quickly, thus a slow market often means even smaller commissions for agents.

Interviewees indicated that there may be large fluctuations in the labour force of the industry as during a slow moving market many agents find other full-time work and then return to the industry only when selling becomes easier. These fluctuations are difficult to detect on the current basis of data collections as most agents retain their licence and so are still registered as real estate agents.

The recent substantial rise in the value of all properties has increased the attractiveness of real estate selling as a re-entry job, especially as the education requirements are minimal in most provinces. This is especially true of the

residential market where an indepth knowledge of the investment qualities of a property has not been of primary consideration especially to the average house buyer. In a buoyant market the first year salary of an agent can be very high even with the sale of a very few properties. For example with average house prices of $100,000 in major metropolitan areas and with an average commission of $1,500 per house an agent needs only list with another agent selling twenty houses for an income of $30,000. If the agent manages to both list and sell three of those houses, which is not difficult in a boom market, then that income rises to approximately $36,000. This income is particularly attractive to women re-entering the labour force especially as most of the work can be done in the evenings or on weekends and therefore has less impact on their family life than a job requiring daily presence in an office. Although the industry actively discourages part-time, the flexibility of the hours and the fact that most activity takes place in the evening and on weekends, make the definition of part-time difficult.

Most brokerages are small with an owner-manager and one to five salesmen. The owner has often been a top salesman with another firm prior to starting his own brokerage. The only requirement of a broker is that he take a brokerage course and pass an examination after a required length of time in the business. Few managers have had any formal management training which has resulted in poor cash flow management in many brokerages, and the hiring of poor sales staff. In a strong market the lack of good management training is relatively unimportant, but when rising internal costs are coupled with a weak competitive market brokerages which cannot control their cash flow have difficulties in maintaining their market position and supplying the advertising support required by their agents. The brokerages in the mid-sized category of five to fifteen agents appear to experience the most problems because their overheads are substantial given their salesforce.

Economic Conditions by Product Line

The commercial property market as outlined above focusses on major land and building sales. Most of this property is located in and around the major metropolitan areas in Canada. Although selected centres are growing rapidly the market is being curtailed by the dwindling number of attractive real estate investments. This is particularly true of the major cities of central Canada, although a boom still continues in the Western provinces most notably Alberta and British Columbia.

Two factors are perceived by interviewees to have served to dampen investment in the past; government intervention in the form of the Foreign Investment Review Act which is a deterrent to movement of U.S. and other foreign firms into Canada; and the extremely high and fluctuating interest rates which often make it too expensive for companies to move to new locations, assemble major land holdings or erect major downtown office complexes. These two factors when combined with the extremely high prices of downtown land in the east and the generally depressed rate of economic growth are seen as having produced a major shift westward of commercial clientele. Large companies which gain much of their business from the commercial real estate business are moving to the west to follow their clientele. In the future it is also highly probable that these companies will also move a great deal of their operations to the south-east and south of the United States where commercial growth is exceedingly high.

This section of the industry is the most technologically advanced as its agents must be able to provide immediate access to its products and detailed financial analysis of the investment requirements and potentials of a variety of different financing options. In the foreseeable future commercial agents may be able to access company computers through portable remote terminals which will provide on the spot analysis and so increase the productivity of each agent.

The residential real estate market is subject to many of the same external pressures as the commercial market. Interest rate fluctuations and rises have served to dampen the market as potential buyers either elect to continue renting or renovate their existing home in the face of mortgage rates of 15-18% and high property values. Additional forces are also at work in the market. Unemployment has caused many urban markets to stagnate and plant closings have forced people to sell on depressed markets or even abandon their property to mortgagors. The increase of job opportunities in the West has created boom conditions in major western cities, while markets in central Canada stagnate. The increasing costs of gas and automobile maintenance have drawn people back from the suburbs to downtown condominiums and townhouses. The movement to smaller houses has been compounded by the increase of single parent families and by single people purchasing smaller houses which meet their needs.

The future major growth areas were thought to be in; recreational properties and time-shared condominiums, many of the latter being outside the country or in

the more fully developed recreational areas; or in the centres of major metropolitan areas where house prices have risen between 30% - 50% in the past year.

Senior executives indicated that the instability of real estate markets, especially the residential market, was having two major effects on real estate firms and the industry. Using the Toronto and Vancouver markets as examples they perceived the stagnant market of 1979 and early 1980 in Toronto, and a great many other areas, as having increased the pressure on mid-sized brokerages through a decline in brokerage cash flow at a time when internal costs were rising rapidly. On the other hand, it was perceived that the most recent very rapid increase in house prices, especially in the two major metropolitan areas of Toronto and Vancouver, had brought increased questioning by consumers of the services which they receive for the substantial fees which they pay. The depression of property values and the weakness of the market created problems for mid-sized brokerages in particular as it is these firms which have substantial costs to meet as in general the brokerage must survive on an operating margin of 1 1/2 of the total sales value, with the balance of the commission going to the sales agents. These brokerages must often spend a substantial portion of their revenues on advertising listed properties or list them with the MLS. The agent can often spend many hours driving prospective clients from one property to another without making a sale or without establishing which properties meet their needs. Rising costs of this time and effort have meant that the mid-sized brokerages must provide substantial managerial backup, which they are often unable to do. The cost squeeze on brokers has led to a substantial rationalization of the industry with many smaller firms amalgamating to provide a larger base from which to pay for services. An outgrowth of this rationalization has been the appearance of Century 21, an American based franchise operation which in five years has obtained approximately 400 affiliated offices in Canada. For a fee Century 21 provides national awareness advertising and a variety of courses covering such areas as cash flow management and personnel selection to assist the broker in obtaining the best and most productive staff of agents. The next five years are likely to see a substantial increase in the number of major firms operating franchises and there is likely to be a continued rationalization and decline in the number of mid-sized firms in the business. The one-man operator is likely to remain as his overhead is extremely low and if he can develop a specialized clientele he can ensure a steady commission flow.

The rising value of the investment which home buyers are required to make has led consumers to demand salesmen with detailed investment knowledge of the residential market. Buyers are becoming more reluctant to pay substantial real estate commission costs which are normally built into the selling price of a property. On an average $100,000 home this amounts to approximately $6,000, for what may be seen as amounting to very little more work than chauffeuring. There are an increasing number of homes sold privately and a growing interest in the do-it-yourself courses offered in many major cities. The interest is particularly strong when homes are easy to sell[1].

An alternative to both the traditional real estate service and private sale are services which for a flat fee will list the property, advertise it and screen potential clients, but will not show the home. These services are particularly attractive to the seller as the fee set is very small compared with the normal commission rates[2].

In Vancouver the Real Estate Board is providing a computerized listing service which allows the client to match properties available to his own criteria and so eliminate much of the fruitless viewing that buyers often undertake. This service also eliminates a great deal of wasted time for the agent in showing properties which do not meet the client's requirements. This is especially important for people who are moving from one city to another where neighbourhood names mean little and so fail to act as a screen. Some of the major brokerages may offer similar services in the near future.

Very few of the brokerage firms perceive these activities as potential threats to their traditional way of doing business citing the reluctance of sellers to become involved in showing their home and negotiating the closing deal. It would seem however that there is a potential for the traditional marketing technique to be completely circumvented by computerized listing services accompanied by video-taped films of the inside of the properties. Centrally located services could enable potential buyers to select the properties in which they are interested, work out

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[1] Ottawa Citizen 'Selling House Yourself Has Its Rewards', March 16, 1981.
[2] Ottawa Citizen 'No-Frills Real-Estate Company Coming to Ottawa', March 16, 1981.

mortgage options and the investment potential prior to visiting the houses. If this service were accompanied by a relatively small flat fee it might prove sufficiently interesting to both buyers and sellers to overcome their reluctance to become involved in the sales process.

If real estate commissions do not decline, or if the services of the smaller brokerages are not substantially upgraded it would seem probable that these firms will be eliminated by the larger operations which could offer a variety of flat fee services or that other firms, presently involved in mass merchandising, may enter the residential real estate market to provide cheap consumer oriented services based on high technology and low personal service.

Labour Force Data

Labour force data for the industry are poor. There appear to be no industry produced statistics similar to those produced by the chartered banks and the insurance industry. The Statistics Canada data combine real estate with insurance agencies in such a way that no disaggregation is possible. The Employment, Earnings and Hours (72-002) data seriously underestimates the number of people in the industry as only firms employing more than 20 people are included and most firms are smaller than that.

The following table are the only fully disaggregated data available. Even here the distinctions between different classes of personnel are difficult to assess. 1973 was one of the major downturns in the residential market so that this breakdown may not be truly representative of the number of actual agents.

Table 3.3.1
Employment in the Real Estate Industry
1973[1]

	Full time	Part time[2]
Managerial	16,922	1,904
Clerical	11,276	2,163
Agents	15,358	172
Other	5,566	4,772
Total	49,122	9,014

[1] This is the only year for which a breakdown of employment categories is available.
[2] The definition of part-time in this industry is not clear, especially as so much work is done on weekends or in the evening.

Source: Statistics Canada 72-603, 1973.

From information received during interviews it would seem that employment within the residential real estate sector is highly cyclical, while that in the commercial sector is generally stable. It would appear that the ratio of staff is also stable over time with about one clerical worker to every three agents. The ratio is considerably higher in larger brokerages where much of the repetitive work is already computerized or at least where the use of word processors is widespread. Some major brokers work with a staff ratio of one clerical worker to every ten to fifteen agents.

Although 69% of the labour force in 1973 were female most of these people were working at clerical jobs; only 26% of agents were women while 80% of clerical workers were female. Employers note that there has been a substantial increase in the past five years in the number of women agents particularly in the residential market. It should be noted however that while the percentage of women in the industry is growing it is likely to be subject to substantial fluctuations because it is so closely defined by the residential real-estate market. As yet it appears that few women have entered commercial real-estate selling which may be partially a result of the short time that a large number of women have been involved in real estate sales as a whole or of the lack of substantial analytical training that most brokerages are prepared to give.

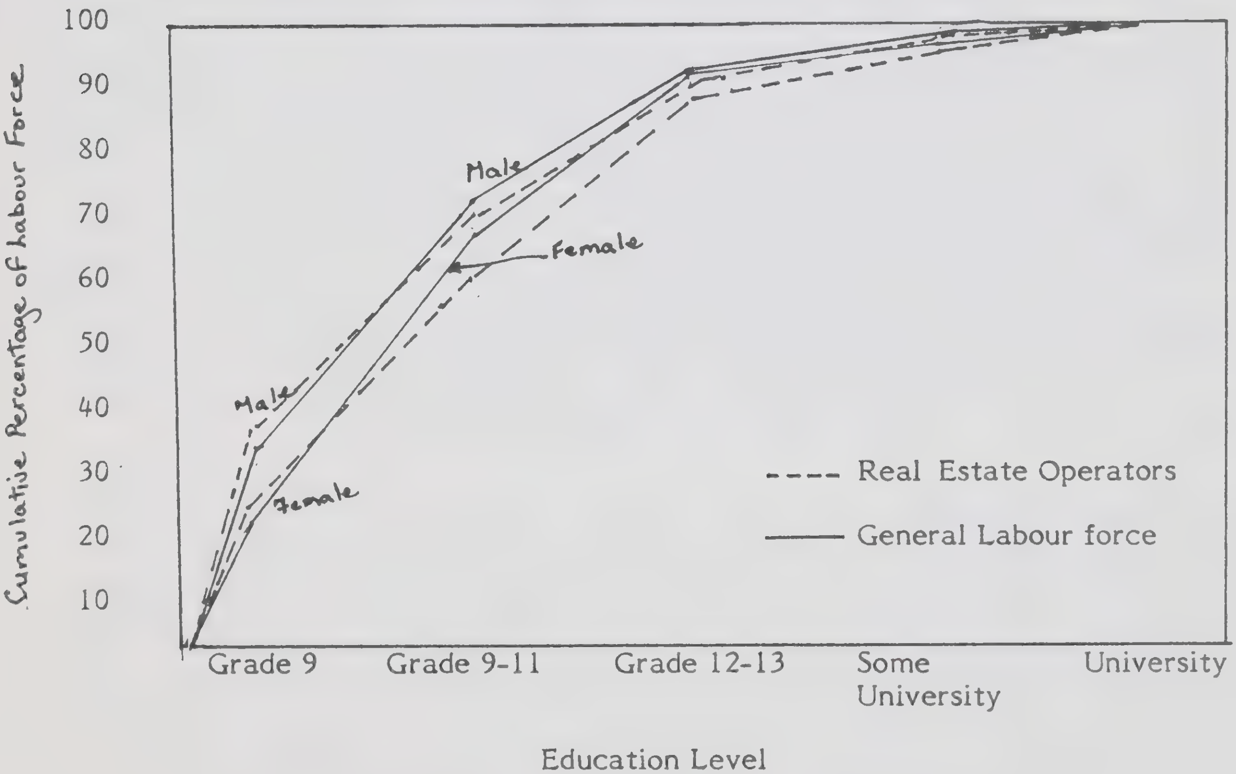
Figure 3.3.1
Percentage of Females in the Real Estate Industry[1]
Compared with in General Workforce

[1] No data was available prior to 1971.

Source: Derived from Statistics Canada 72-002 and 72-603.

There are no formal education requirements for the real estate industry and this has a substantial effect on the education levels within the industry. In 1971 over 60% of all real estate operators had less than Grade 12 education and only 5% had a university degree. Fewer women than men had less than Grade 12 and a substantially larger number of women than men had Grade 12 or 13 education (31% of women compared with 20% of men). There were fewer women real estate operators with any university education, only 9% of women compared with 18% of the male operators. The bulk of operators, 32%, have Grade 9-11 education. The greatest number of university educated operators are likely to be in the commercial real-estate business where the skills required are far more specialized and technical.

Figure 3.3.2
Education Levels of the Real Estate Operators
Compared with the General Labour Force (1971)



Source: Derived from Statistics Canada 94-749.

Recent changes in testing and mandatory prolonged courses may improve the education levels, but the major impetus is likely to come from demands by consumers for agents that can assist them in evaluating their investment options and the consequences of different mortgage arrangements. Some brokerages are becoming more heavily involved in agent education and most major brokerages encourage agents to take additional courses either offered inhouse or by the Real Estate Boards. The Community Colleges now play a major rôle in the pre-licence education and it is hoped that this will serve to upgrade the quality of the new agents coming into the industry.

At present the bulk of agents are located in central Canada however with the stabilization of this market and the high growth conditions being experienced in the western provinces it is likely that there will be a substantial growth of the agency force in the west especially in British Columbia, Alberta and to a lesser degree in Saskatchewan. Licences are not transferable between provinces and frequently there is a substantial waiting period before an agent can begin working. Often there are waiting lists for pre-examination courses of as long as six months to a year. In most cases the course itself is only three to five weeks long but combined with the waiting period it may take over a year for an agent to become licenced. Few agents are able to go without income for such a substantial period. This major barrier to mobility has led to a shortage of agents in the west, especially in Alberta where brokerages are in a position of having more vacancies than qualified agents to fill them. In British Columbia the problem is compounded by the government restrictions on the number of new licences issued in any one year.

Planning in the Industry

Very little strategic planning is carried out by the industry except in the major firms. Even then detailed personnel planning may only be carried out for a six month period. Most senior executives interviewed were sceptical of the worth of conducting personnel planning beyond this because of the low barriers to entry for both agents and brokers and the large movements of essentially part-time agents into and out of market as demand grows and falls. Real estate agents work as independents attached to the brokerage for legal rather than economic reasons, and as few agents have any direct salary it is entirely up to their own efforts how much money they make. Some changes in the loose connection between agents and

brokers may come about if brokerage firms have to provide substantial education, or if many of the smaller firms disappear and the agents have fewer choices as to where they will work. Until there is more stability in the agent/broker relationship any brokerage which provides substantial upgrading training is open to 'raiding' from other brokerages or to the loss of salesmen who are in a position to establish their own firm.

It was not perceived by the respondents that there would be major technological changes that would lead to substantial layoffs within the industry. Most firms have a very low number of clerical staff and the use of word processors has served to raise their productivity and allow them to do other work rather than reduce the number of jobs per se. Although companies saw remote terminal access, video tape displays and central listings as assisting their agents there was no expectation of any radical change that these might bring about in the industry itself. It was pointed out that in fact the availability of technological backup may make the agents of a particular brokerage more productive and therefore encourage them to stay but in any case the easy movements of agents from one brokerage to another and the large number of part-time clerical workers made any personnel planning uncertain in the extreme.

In the area where planning over the whole industry would be beneficial the brokerages have no control, this is in the area of inter-provincial shifts in demand for agents. The brokerages are unable to move personnel from one province to another as the licencing procedure is completely out of their control and is subject to provincial legislative control.

Outlook for the Future

The following is a synthesis of the major future prospects for the real estate industry based on interviews undertaken with senior executives of five real estate firms. These perspectives centre around three major issues and are analysed with a view towards their major labour force implications. The three issues facing the industry over the next decade were perceived to be:

a) the unstable economic environment and regional changes in economic activity.
b) the perception of all real-estate as an investment by increasingly sophisticated consumers.
c) changes in the definition of the real-estate industry and its technological base.

a) the unstable economic environment and regional changes in economic activity.

The unstable economic environment is likely to continue for the foreseeable future. The effects of substantial rises in mortgage rates are already being felt in both the commercial and residential markets even though a few major metropolitan areas are experiencing increases of 30-50% in value over very short periods for certain types of downtown property. These conditions however do not spread even into the more distant suburbs away from major mass-transit routes. On the other hand analysts indicate that rent controls, which are in effect in several provinces, have had the effect of reducing residential property demand. If rent controls are lifted there is likely to be a sudden upsurge in house buying as rents move to a more traditional relationship with owned property costs. It is not anticipated by the industry that there will be substantial government intervention in the real estate market although changes in income tax laws governing the deductability of mortgage interest or property taxes could make homeowners more willing to buy even in the face of high mortgage interest rates.

Demand for industrial and commercial space would seem to depend on both economic activity and interest rates, which it is expected will lead to a continuation of the present demand for properties in western Canada. The length of time during which this demand is likely to continue would appear to rely on the health of the economy in the West and especially the oil and gas industry.

Under the present non-reciprocal provincial licencing arrangements the brokerage firms are unable to readjust the imbalances brought about by shifts in economic activity. The shortages of agents in the West is likely to remain severe throughout the early years of the 1980's. The rationalization of the number of agents in Ontario and Quebec is likely to be delayed if there are short-term boom markets which encourage people to remain as agents and new people to apply for licences.

The effect on the labour force of these changes will be to increase the competitive environment for individual agents as the market again slows into the mid-1980's.

Estimates for the number of new agents range from 3,000 - 12,000 by 1985 and from 3,000 - 8,000 between 1985 and 1990. The size of the spread between these estimates is caused by the uncertainties of the above economic forecasts and the enormous amount of flexibilty which there appears to be in the size of the labour market.

Uncertain markets especially in residential real estate may lead to a larger number of part-time agents but probably not a decline in the total number of agents but predictions here are highly uncertain primarily because it is almost impossible to gauge the public's reaction to changes in house prices, mortgage rates or perceptions of fashionable accommodation or location.

Rising costs within the brokerages in a slow market are likely to force the amalgamation of smaller agencies and an increase in either large national or franchise firms in the residential market, but this is unlikely to affect the number of agents.

b) the perception of all real estate as an investment by increasingly sophisticated consumers.

As all real estate becomes viewed as major investment there is likely to be an increased demand by consumers for better training of, and more service from, agents especially in the residential market. Consumers will be less willing to pay substantial commissions for what they perceive as very little work by the agents and there are indications that there will be increased pressure on the industry to provide flat-fee services or a range of individually priced services from which the client can select those most appropriate to his needs.

The effect on new entrants to the labour market will be minimal unless provincial governments make extensive training mandatory. As discussed before the benefits to any one brokerage of instituting substantial training programmes is minimal while agents are free to move from one to another and if training requirements are not made part of the licencing function real estate boards have little authority as licencing is a provincial jurisdiction. If there is legislative or internal industry requirements for substantial on-going education this may benefit female entrants who are more likely to be able to meet the requirements because of their generally higher academic backgrounds.

c) changes in the definition of the real estate industry and its technological base.

The outgrowth of consumer demands for selected services and the increasing flexibility of newly available technology may be a redefinition of the traditional sales role of the real estate agent. To eliminate the time wasted on viewing unsuitable properties, or even to eliminate the agent from the process completely, buyers may be able to choose to select properties matched to their criteria from a central data bank of properties for sale. If this technology is made available through the real estate boards as is done in Vancouver then smaller brokerages may still survive by linking into the service at their own offices. This will eliminate further however the possibility of exclusive listings and so reduce the potential commission obtainable by the brokerage. If the technology rests in the hands of major companies this is likely to re-inforce their supremacy in the market place and force smaller firms to amalgamate or to enter into franchise arrangements with firms that are willing to provide an adequate technological support function. Finally, if the real estate industry ignores consumer pressure for more efficient search mechanisms and cheaper priced services it is very possible that firms from outside the industry, which have strong communications bases, or which have already established success in direct consumer marketing could move into the industry. This would lead to the elimination of a substantial number of smaller brokerages especially in metropolitan areas.

If the technology rests in the industry the overall labour market effects are likely to be very small, however if it does not then the effects could be very substantial with the impact falling almost completely on the residential real estate firms and agents. One estimate was given that about 40% of all agents could be eliminated, but as a whole the executives interviewed did not perceive any of these changes making a major impact on the industry and certainly not to this extent. Large companies assumed that they would be the holders of the technology, while smaller companies viewed it as gimickry which would soon pass; neither group expected to see the number of agents decline.

4. CONCLUSIONS

4. Conclusions

The following discussion will focus on the major conclusions which were drawn from the overall synthesis of the information for each industry sector in the context of the three main issues identified as being of concern to the Commission in its future programming. The three issues were:

a) the effects which rapid change in technology might have on the labour force, especially those in clerical positions,

b) the labour force effect of unstable economic conditions, and

c) the labour force effect of the changing economic base and the geographic redistribution of economic power and employment.

1. Financial Institutions

Labour force growth in the financial institutions is expected to be much slower in the 1980's than in the past decade. Most of the growth will be concentrated in the areas where higher technical skills are required, while growth in the lower-skilled clerical areas will be minimal.

Technological Change

While technological change is expected to be relatively rapid it is not expected to cause dislocation in the labour force as much of the impact will be absorbed by non-replacement of personnel in vacancies arising from the high turnover rate and a reduction in the rate of new jobs created. Most of the short term technological change will take place in the clerical area but here the turn over rate is such that it will more than absorb such changes. Retraining will also help to move present employees into new jobs and different duties.

Emphasis will be placed on higher academic skills and more flexibility for new entrants into the clerical area as more of the routine jobs are absorbed by electronic data processing.

The major growth department brought about by technological change will be that of EDP where the shortage of professionals is expected to be chronic covering most of the decade and of sufficient depth that it may slow such change from its planned rate.

Unstable Economic Conditions

The financial institutions will be more competitive between themselves and their competition will lead to an increased demand for high level skills in the areas of commercial lending and international banking. Professionals in these areas will be in short supply as both foreign banks and expanded departments of Canadian banks will need the same type of people. The supply of people for these areas is not likely to expand rapidly as many come from university business administration schools which are not currently expanding their programs.

Changing economic base and geographical redistribution of population

The main centre of employment will remain in Ontario and Quebec but there will be considerable expansion in the west, especially in savings and credit institutions at the branch level, compared with rationalization of some branch systems elsewhere. Rationalization is not expected to have more than minimal effects on labour force levels and the western expansion will probably be met from labour pools and although there may be some shortages, none of which are expected to be chronic.

In summary the changing labour force demands both in size and skill mix offer little opportunity for the Commission to play an active role in underating changes except by dissemination of information through the Secondary School Systems to the future requirements of these employers.

2. Insurance Industry

Labour force growth in the insurance industry is expected to be minimal or to exhibit an overall decline. Where there is growth it will be restricted to very specialized areas, the foremost being electronic data processing. There is expected to be an overall decline in clerical positions by the end of the decade.

Technological Change

Technological change is already advanced in one sector of this industry and other sectors are likely to catch-up rapidly. Even though most of the changes will appear in the clerical area, no dramatic dislocations are expected because of the high turnover rate for clerical personnel and because

all companies have in-house training programs in place that can be used for retraining redundant personnel. Emphasis will be placed on higher academic skills for remaining clerical jobs which will be less routine in nature.

The growth department connected with technological change will be electronic data processing and here, despite in-house training programs, all companies are likely to face chronic shortages of personnel for the rest of the decade.

Unstable Economic Conditions

All companies are expected to face a highly competitive environment for the rest of the decade. This environment will further emphasize the cyclical swings in the casualty companies. There will be an increased demand for highly skilled technical personnel to increase product offerings and to ensure that investment return potentials are maximized. Personnel in these areas are already in short supply as often long lead-times are required for training and no change in this supply is expected in the near to mid-term future. The competition for business is likely to cause a rationalization of the agency structure will many agency operators retiring from the business but this pattern is not expected to be precipitate and will be within manageable proportions.

Major destabilizing effects could be created by government intervention in the industry by removal of certain product areas. Most of these dislocating effects would fall on clerical workers but more senior personnel would also be effected.

Changing economic base and geographical redistribution of population

The main centre of employment will remain in Ontario and Quebec but agency rationalization is expected to be greater here than elsewhere and there will be continued expansion in the west. Overall these changes will have very little effect on the current labour force but will effect new hiring patterns.

In summary there is little opportunity for the Commission to play an active role in this labour market by offering new program initiatives. The Commission may find a role if there is major government intervention in the industry with

resultant labour force dislocation. Otherwise the dissemination of the future personnel requirements of the industry to the Secondary School System could prepare school leavers for the type of jobs likely to be offered in the industry in the next decade.

3. Real Estate Industry

Labour force growth in the industry is expected to be concentrated in the growth in the number of agents. As this growth is controlled by the provincial governments and is outside the control of the industry and the barriers to entry are low, the labour market for the industry is subject to external environmental inhibitors or stimuli over which the industry has no control.

Technological Change

Technological change within the industy is likely to be very slow and will do little to change the structure of the industry. External technological change could substantially change the dimensions of the industry and would have profound effects on the agency structure and the need for agents. However as most of these are self-employed and are free to exit from the industry this would actually produce little redundancy.

No major demand for electronic data processing personnel is expected to develop before the end of the decade.

Unstable Economic Conditions

Slow markets especially in residentail real estate are likely to reduce the number of new entrants but here again free exit will reduce the numbers involved and it is possible that much of the impact will be absorbed by part-time agents.

Changing economic base and geographical redistribution of population

The changing pattern of the Canadian economy will cause a longer term growth in the labour market in the West but because of the barriers to inter-provincial movement produced by the non-transferability of licences, little movement of agents from east to west is expected. Short-term labour shortages are expected in most western provinces, with longer term expectations in British Columbia because of licencing restrictions in that province. Entry may slow in some depressed areas of the east and this is likely to be coupled with some withdrawal of part-time agents.

In summary the flow of people into and out of this industry is not under its control and therefore there is little opportunity for the Commission to interact with the industry in solving its labour force problems. As many entrants are from the general labour pool and workers re-entering the market and not the secondary school leavers, there is no particular channel through which the Commission could disseminate information on the future of this market.

Summary

Technological change is not expected to play a role in the labour market dislocation in this sector. External economic conditions and internal competitive factors may lead to substantial dislocation however. The role of the Commission should be to disseminate information concerning future labour force and skill mix requirements of the industries concerned especially where these effect the ability of new entrants to the labour force to obtain stable employment.

APPENDICES

Appendix I

Methodology

The finance sector is made up of three distinct industries and all work undertaken in the sector was done on the basis of these industry groupings. In each case the industry was divided into its major sub-industry groups and major products.

Financial Institutions	- Savings and Credit	- Commercial	
		- Retail	
	- Other Financial Institutions		
Insurance Industry	- Insurance Carriers	- Life	
		- General	- Commercial
			- Personal
	- Independent Agents	- Commercial	
		- Personal	
Real Estate Industry	- Commercial		
	- Residential		

For each industry a series of hypotheses were developed concerning the state of the industry and its future as related to three previously identified main issues:

a) the effect that rapid changes in technology might have on the labour force, especially those in clerical positions,

b) the labour force effect of unstable economic conditions as all industries are involved in interest sensitive markets, and

c) the labour force effect of the changing economic base and redistribution of economic power and employment.

The hypotheses are those set out at the beginning of each section of the industrial analysis.

From these hypotheses a detailed questionnaire was drawn up to be used for all interviews with a particular industry segment. The questionnaire which was used in the Savings and Credit industry interviews is appended. This questionnaire was then supplemented by a detailed data questionnaire which was submitted to insurance companies and savings and credit institutions which had been interviewed previously, this questionnaire is also appended.

The interview questionnaire consists of open questions which acted more as a guide than a boundary for the interviews. All interviews were conducted on a face to face basis and were generally of an hour to one and a half hours in duration.

The firms to be interviewed were selected on the basis of their size in assets and employment. Most of the firms interviewed were in Ottawa and Quebec but this reflects the patten of employment within the industries. A broad cross-section of firms were interviewed so that it was possible to interview both very large and small firms in each industry and to provide some representation of the differing influence of foreign interests. In all, 28 firms were interviewed, distributed as follows:

Savings and Credit	11
Chartered Banks	7
Trust Companies	4
Insurance Industry	12
Life Companies	4
General Companies	4
Independent Agents	4
Real Estate Industry	5
Commercial	2
Residential	3

All interviews were conducted with senior management personnel normally at the vice-president level, or one of comparable responsibility. Frequently several senior managers were also present and were also available to answer questions. Most of those interviewed were responsible for the personnel planning functions but many were also involved in strategic planning. All interviewees were assured of the confidentiality of their responses. To supplement these interviews and to obtain an indication of any particular bias produced by the sample interviews were also conducted with senior personnel in industry associations and government officials responsible for the various industries.

The responses were then reviewed and fitted into the structure of the hypotheses so that each hypothesis was either rejected, qualified, or accepted. A synthesis was then prepared from this analysis together with an analysis of industry data and trends, and information available from industry journals, newspapers, and other documents. This synthesis was then related to the three main issues and conclusions as to possible responses for the Commission drawn.

Questionnaire for the Savings and Credit Institutions

1. What major external changes do you see as having occurred in your industry's environment in the past 10 - 15 years?

2. What do you see as the major problem and opportunities facing your industry in the mid-term future?

3. The public seems to be demanding an ever increasing number of services from its financial institutions. How is this affecting your institution?

4. The current discussions of EFT seem to express a very hesitant view. Will public resistence to this movement change your institutions' ability to fully utilize existing technology?

5. Present employee statistics:
   i) number of employees/sex distribution
   ii) Job/sex distribution
   iii) wage bills for each segment.

6. How do you expect your bank to respond to the opportunities and threats of the future?

7. Banks have been among the leaders in the uses of computer technology. Do you expect them to lead with the introduction of more advanced information technology?

8. Where do you see future changes in personnel requirements occurring? In what areas do you expect shortages to occur? How chronic will they be?

9. Do you anticipate rationalizing your branch system through branch closings? Will these branches be replaced by automated teller machines? What arrangements would be made for redundant personnel?

10. Savings and credit institutions have traditionally trained their own tellers and managers. Do you see these programs being changed in the future?

11. Do you anticipate increased unionization in your industry? Would this influence the level of technology you might expect the industry to adopt?

12. With the movement into Canada of U.S. banks and increased activity in the U.S. of Canadian banks, do you see similar automatic services being offered by Canadian banks?

13. With increased international instability in financial markets, do you expect to increase your analysis and foreign departments? If so, from where do you expect to recruit people?

14. Where do you feel that the introduction of technology into the banks has not been successful? What problems do you anticipate in the future?

15. How far ahead does your institution conduct its strategic planning?

16. For what period is this interpreted into detailed personnel requirements?

17. Do you see a need in the future to extend this planning period?

INSURANCE INDUSTRY QUESTIONNAIRE

	Current		Projected % Increase 1985		Projected % Increase 1990	
1. Number of people employed (non-sales staff)						
1A. Number of people employed as agents (life companies & direct writers only)						
1B. Growth rate on which predictions made						
2. Number of people employed in different areas:						
a) Management						
b) Underwriting - commercial						
- personal lines						
- other						
c) EDP - analysts						
- programmers						
d) Clerical - Head Office						
- Branches						
e) Sales						
f) Speciality areas (Pls. List)						
3. Male/Female Breakdown	M.	F.	M.	F.	M.	F.
a) Management						
b) Underwriting - commercial						
- personal lines						
- other						

	M.	F.			M.	F.	M.	F.
c) EDP - Analysts								
- Programmers								
d) Clerical - Head Office								
- Branches								
e) Sales								
f) Specialty areas (Pls. list)								

	Avg. for Group	Hiring Level	If internal promotion denote which level	Expected changes in Hiring Level 1985	1990
4. Education Level					
a) Management					
b) Underwriting - commercial					
- personal lines					
- other					
c) EDP - Analyst					
- Programmers					
d) Clerical - Head Office					
- Branches					
e) Sales					
f) Specialty Areas (Pls. List)					

... 3

	Current Vacancies	Future Expected Shortages Short Term 1	2	3	4	Chronic Long-Term 5
5. Specialty Areas						
1. Actuaries						
2. EDP - Analysts						
- Programmers						
3. Areas of corporate specialty a)						
b)						
c)						
4. Adjusters						
5. Other - (Pls. List)						

	Current	1985	1990
6. Geographic Distribution of Personnel (%)			
1. Maritimes			
2. Quebec			
3. Ontario			
4. Western Provinces			

7. Period over which detailed man-power planning is normally effected

	Industry specific training					Company specific training				
	Only for industry				Universal	Only for Company				Universal
8. Brief descripton of different types of clerical staff.	1	2	3	4	5	1	2	3	4	5
a)										
b)										
c)										
d)										
e)										

Appendix 2

Projected Employment in the Finance Sector 1985 to 1990

The projections used in Table 2.1 were derived from information given in response to interview questions and a questionnaire given to companies involved in the study, but were based on the available Statistics Canada data.

The figures must be treated as 'best-estimate' data as, in most cases, detailed manpower planning covers a twelve to twenty-four month period. The estimates were based on expected company growth rather than overall industry growth and therefore may be overly optomistic.

The projections shown in Table 2.1 are based upon the prevelance of a normal economic and legislative environment and variations from this will be discussed later.

Gross figures are given merely as an indication, whereas, as detailed in Section 2 there may be substantial changes in the type of people hired for future vacancies. In the following tables an indication is given of the probable changes in emphasis of hiring groups, for example a change from lower skilled clerical workers to EDP technicians. In some cases substantial growth may be anticipated in one group but in terms of overall numbers this group may still remain a very minor part of the labour force.

The background data for these estimates are a combination of Statistics Canada data and available industry figures. Major problems in the use of Statistics Canada data were found. The 1973 special report (72-603) which used 1973 October data does not correlate with the data appearing in the Employment, Earnings and Hours Report (72-002) for the same period. The Special Report gives total employment for the Sector at 349,239 while Report 72-002 gives a total of 278,430. The discrepancy arises because the 72-002 statistics are based on firms of more than 20 employees while the 1973 special report covered all firms. As 70% of Insurance Agencies and a similar number of Real Estate firms have less than 5 employees these firms are eliminated from the Monthly data. The lack of appropriate data presented special problems where detailed industry figures were not available. Because of these difficulties detailed figures are provided within this Appendix so that the reader can be made aware of the substantial under estimations of Sector employment within some tables.

Scenarios by Section

Financial Institutions

Employment in the Financial Institutions is primarily in the Savings and Credit Institutions and within those in the chartered banks. As these contain approximately 70% of all employment in savings and credit the following employment scenarios are based on trends within the banks.

The statistical base data are generally poor as there is almost no disaggregated figures available except from the chartered banks through their association. Statistics Canada has provided disaggregated figures, which break down the Financial Institutions data into Savings and Credit and other activities only for the past four years, and supply nothing below this level. Historical data therefore becomes difficult to acquire and its comparability over time is often unknown.

For the purposes of this section employment has been broken down into six main groups; management, loan officers, accountants, electronic data processing personnel, clerical workers[1] and tellers. Not all institutions use these titles but it was thought that they would provide a sufficiently standardized and simplified breakdown to indicate changes in personnel deployment.

Based on 1980 figures and generalizing for the Savings and Credit Institutions as a whole the distribution of personnel appeared as follows:

Table A 2.1

Management	10%	(21,730)
Loan Officers	13%	(28,249)
Accountants	5%	(10,865)
Clerical	45%	(97,785)
Tellers	12%	(26,076)
EDP	14%	(30,422)
		(215,127)

[1] This group is the most difficult to define as it may include a variety of occupations such as side counter clerks, general clerical personnel or junior grades of accountants.

It is expected that there will be considerable growth in the savings and credit institutions between 1980 and 1990, approximately 12% per annum in assets, but personnel growth is expected to be substantailly lower than this. In overall terms it is expected to increase by approximately at 3-5% for the next five years and at 2-3% in the years from 1985 to 1990. Most of this growth will be at the technical/specialist levels with primary growth in the commercial loans area and in EDP. Total numbers of clerical employees are not expected to decline but there will be very little growth in this area, 0-3%.

The following estimates are based on this view of an essentially stable environment:

Table A 2.2

1985

Management	10%	(25,000)
Loan Officers	14%	(32,486)
Accountants	5%	(11,951)
Clerical	41%	(97,628)
Tellers	11%	(28,000)
EDP	18%	(44,112)
		239,177

Table A 2.3

1990

Management	12%	(33,750)
Loan Officers	14%	(39,633)
Accountants	5%	(13,026)
Clerical	36%	(103,485)
Tellers	10%	(29,000)
EDP	24%	(70,579)
		289,473

If the environment becomes even more competitive than is now expected then major changes are likely to occur in the loan officers group and where the expected growth rate is now expected to be 40% this could increase to 50% or 60%.

If home computer technology increases in popularity and its interactive communications capability changes radically the EDP expansion will be even more pronounced than the above estimated increase of 130% and may rise to an increase of 150% to 170%. The number of clerical and teller positions would then be expected to remain essentially static between 1985 and 1990. In that case the 1990 projection would appear as follows:

Table A 2.4

Management	12%	(33,750)
Loan Officers	14%	(39,633)
Accountants	4%	(13,026)
Clerical	34%	(97,628)
Tellers	9%	(28,000)
EDP	27%	(79,097)
		291,112

Even the more conservative estimates of Tables A 2.2 and A 2.3 project a dramatic expansion of EDP personnel requirement which is likely to create even more strains on that market for the rest of the decade unless there are substantial changes in computer technology. The bottleneck of technical personnel may slow down technological change at the retail level to some small degree but this slow down will have very little impact on the decline in the importance of the retail level workforce. Changes at this level are likely to continue in favour of automation in other less necessary areas such as commercial and retail lending.

While the decline in importance of clerical personnel is substantial it should be noted that there is still an overall increase in the number of projected positions of approximately 6,000 which is an overall increase of 6%. As this and the teller area have substantial turnovers of approximately 15-20%, and there will be increasing emphasis on upward job mobility there is little cause for major concern, especially as current demographic patterns would indicate a decline in the labour force pool from which these workers are drawn, namely the high school leavers.

The present structure of the data available from Statistics Canada does not indicate these internal occupational changes and so fails to supply much needed data for Sector and government planners.

Insurance Industry

Employment in the Industry can be divided into four main areas: managerial, technical, clerical and agents. Agents are both those employed directly by the companies and those acting as independent agents. Data establishing any overlaps between the two groups is presently unobtainable as life insurance agents are often independent agents. It would appear from the data however that the life companies may only list those agents directly employed by them rather than licenced by them. On this assumption the following break downs are estimated[1].

Table A 2.5

Company staff		59% (79,700)
Managerial	12% (9,564)	
Technical	18% (14,346)	
Clerical	70% (55,790)	
Agents		41% (56,150)

N.B. These projections are derived from Table 3.2.7.

It is estimated by the companies that although there will be considerable industry growth between 1980 and 1990, approximately 5-15% growth of sales and assets per annum, this is not expected to be reflected in substantial personnel growth. Growth is primarily expected in the technical group especially in the numbers of EDP specialists, actuaries, and finance experts. Many companies expect that the number of EDP personnel will double in the next five years (to 1985) and expand less rapidly to 1990. This growth will be more than outweighed by the decline in the number and proportion of clerical workers. It is expected that there will be either no growth in the number of clerical jobs or that there will be an actual decline. In general terms it is expected that personnel growth will be approximately 1-3% by 1985 and slightly less by 1990. The advent of agency personnel licencing and other factors discussed in Section 3.2 are likely to reduce the agency force considerably, estimates run as high as 50% by 1990. Reductions have been conservatively estimated at 15% to 1985 and a similar reduction to 1990 for an overall reduction of approximately 27%.

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[1] The figures appearing in Table 2.1 are Statistics Canada Data, data used in this Appendix are Industry data, see Table 3.2.6 and 3.2.7.

Total employment shares would expect to be as follows for 1985 to 1990.

Table A 2.6

	1985	
Company staff		63% (80,497)
Managerial	12% (9,564)	
Technical	27% (21,469)	
Clerical	61% (49,464)	
Agents		37% (47,727)

	1990	
Company staff		67% (81,302)
Managerial	12% (9,756)	
Technical	36% (29,710)	
Clerical	51% (41,836)	
Agents		33% (40,568)

Derived from Table 3.2.7

As can be seen from above the expected growth will cause a dramatic expansion in technical personnel, which is likely to put severe strains on an already tight market especially where EDP personnel are concerned. Any slowing in this expansion is likely to slow the reduction of clerical positions for a short time. However if the bottle neck in technical personnel is suddenly eliminated this may result in an equally sudden reduction in clerical positions. The reductions in clerical personnel while substantial are not sufficient to cause concern as this group has historically held a turnover rate of approximately 20-30% per annum. It is also important to note that this decline in positions is likely to be matched by similar demographic declines in the very group from which most hiring takes place, the high school leavers.

If serious and abrupt changes take place in the industry environment the groups most likely to be affected are the clerical workers and the agents. If more provinces in the near future take over automobile insurance then there could be an overall loss of 25% of clerical employees by 1985. A similar loss of roughly 15% could be experienced if pension plans were to be administered by the government. These changes are likely to be abrupt and therefore layoffs are likely to occur. If mandatory licencing of agents takes place in more provinces the reduction in the number of agents is likely to be speeded up and may in fact reach the 50% figure mentioned earlier.

The present structure of the Statistics Canada data are not likely to reveal these changes as the size of firms presently included on a monthly basis fails to capture the bulk of the activity at the agency level.

Real Estate Industry

Estimates for employment within the Real Estate Industry are very difficult to acquire. Real estate operators are normally combined with Insurance Agents in the Statistics Canada data and there are no national industry figures available.

As discussed previously the operators or licenced agents are all basically self-employed and therefore free to move between different firms. Many agents work in real estate part-time or use their licence only when the market is profitable. Only in British Columbia are the number of operators able to obtain a licence in any one year restricted, but even there it would appear that not all agents use their licence full-time.

The clerical ratio as discussed in Section 3.3 is high, approximately one clerical worker to every three agents, although in very large firms this rises to a ratio of 1:10 or 1:15. The ratio for managers would appear to be approximately the same.

Of primary concern, as noted before, is the strong possibility that technological developments will enable the consumer to completely circumvent the industry in the residential market and thereby virtually eliminate the need for agents for residential properties. This is unlikely to happen in the case of commercial real estate.

The available 1980 figure would indicate that there are some 70,000 real estate operators in Canada, however this figure is likely to be inflated by the number of part-time agents attracted to an abnormally strong and profitable real estate market in the major metropolitan areas. In normal years the number of active agents may be as low as 55 to 60,000 and of that number about 5,000 may be part-time operators, although part-time work is actively discouraged by the industry and is also difficult to define.

Predictions for 1985 to 1990 are exceedingly difficult to make as the effect of high interest rates on the real estate market would appear to have been severely overestimated especially in the face of rent controls which lower vacancy rates to minimal levels in major metropolitan areas. The estimates in Table 2.1 show an increase of 24% (12,900) to 1985 and a further increase of 12% (8,000) to 1990. However if there is a substantial downturn in the metropolitan markets, or a considerable effort on the part of consumers to eliminate agents from residential transactions then growth rates could decline to 5-10% (3-5,000) to 1985 and 5% (3,000) to 1990, and much of this growth would be in the commercial real estate market.

If serious disruptions take place in the marketing of real estate these will not necessarily be demonstrated in the data as presently established as only a decline in the number of licenced agents would be apparent, while those that are under-employed or inactive would not be captured.

The data as presently constituted will not reveal the effects of substantial amalgamation of firms as it does not include the bulk of the brokerages which would be effected. In fact because of the present structure of the data they may actually indicate a substantial growth in this sector where none may exist or an absolute decline be taking place.

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